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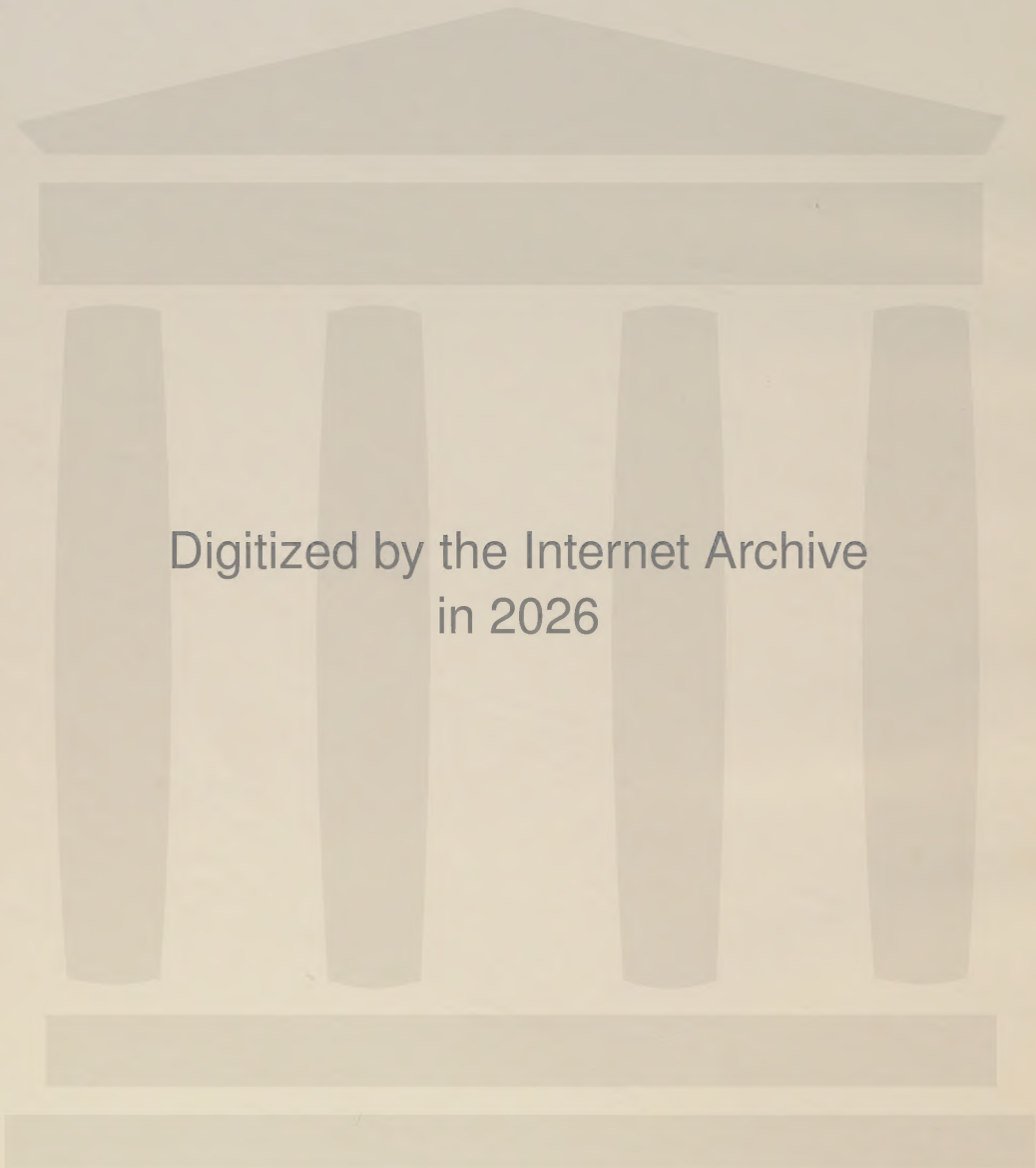
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Proceedings

FIRST SOUTHERN TRUST CONFERENCE

Chattanooga, Tenn.

April 20-21

1928

Trust Company Division
AMERICAN BANKERS ASSOCIATION
110 EAST 42nd STREET, NEW YORK

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Foreword

as to

THE FIRST SOUTHERN TRUST CONFERENCE

THE PLAN of holding annual regional trust conferences in each section of the United States was extended to the South, in April, when the First Southern Trust Conference was held in Chattanooga, Tennessee.

As an initial event, the Conference was notable for attracting to its sessions a particularly high percentage of the working trust officers of the South. Trust companies and banks from sixty-nine different cities were represented. Appearing on the program were some of the most widely known and best qualified trust officers from all parts of the country. The President of the American Bankers Association and the President and Vice-President of the Trust Company Division participated in the Conference.

The President of the oldest trust company in the United States, speaking at the banquet, foreshadowed the tremendous growth that is confidently expected by the best-informed trust men when he said that the condition of the trust business today might be compared with the condition of the life insurance business twenty years ago.

Throughout the Conference, the prophecy of rapid growth was frequently made; but even more often the assembled trust men were warned of the large responsibilities that were being assumed and of the primary requirement for having adequately trained and skilled men to handle the business.

AS this was the first Conference in the South, where the trust movement is comparatively new, the program dealt largely with the fundamentals of trust work. However, the discussions were addressed particularly to the problems of the Southern States and there was a lively interchange of opinions and ideas as to the best methods to be used. A fine spirit of helpfulness marked the Conference. From the practical standpoint, the Conference produced a suggested model plan for the review and analysis of securities in trust estates, a succinct statement of the policies that a bank president should pursue with reference to his trust department, a method for developing the life insurance trust, a program for advertising trust service, a way to bring about more standard fees and a detailed statement of the pitfalls that an institution with a new trust department should avoid.

In the following pages will be found a report of the chief features of the Conference. The quick reader—as well as the individual who is fortunate enough to have time to read the addresses and discussions carefully and deliberately—has been kept in mind in the preparation of the record. The highlights of each address have been set down briefly and tersely—as a forerunner of the lengthier presentation. The quick reader may thus in a very short time get the gist of the address.

It is virtually impossible to capture in type the personality of a speaker or to reflect adequately his mastery of the subject. Because of the abiding interest of the reader as to the personality of the principal speakers and their qualification to speak with the weight of authority, a thumb-nail portrait of each is printed, as well as a brief sketch containing a few interesting facts as to his career.

ONE of the features of the Chattanooga Conference was a display of trust advertisements, posters, leaflets and folders. Exhibits from more than thirty different institutions were shown.

One novelty was a life insurance trust agreement engraved in much the same manner as a life insurance policy. As an attractive "package" for the merchandising of an increasingly popular trust service, it caused much comment.

The film "Vanishing Fortunes" depicting the advantages of protecting the proceeds of life insurance by a trust agreement was shown, demonstrating that motion pictures may serve as a useful aid in selling trust service.

By a unanimous vote, the southern trust men requested that the Conference be made an annual event in the South. Invitations were received from three cities for the 1929 Conference.

THE SPEAKERS—*and Something*

ROBERT F. MADDOX

ROBERT F. MADDOX was born in Atlanta, Georgia, April 4, 1870. He was educated at the University of Georgia and Harvard. While he has been active in banking for many years, Mr. Maddox has given a large part of his time to public service. He was Mayor of Atlanta in 1909-10 and has served on a number of State Boards and Commissions.

He has been prominent in banking associations being President of the Georgia Bankers Association 1911-12 and President of the American Bankers Association 1918-19.

He was a member of the American Bankers Association Committee that presented resolutions concerning the monetary system to Congress shortly before the passage of the Federal Reserve Act. While his banking interests have been largely in the commercial field, Mr. Maddox has followed the development of trust business for many years. He is Chairman of the Board of the Atlanta and Lowry National Bank of Atlanta, as well as Chairman of the Board of its affiliated institution—the Trust Company of Georgia.

A. F. YOUNG, after receiving his degree of LL.B. from Western Reserve University in 1913, entered into the general practice of law for one year. He then served three years as Assistant City Solicitor of the City of Cleveland, after which he became connected with the Guardian Trust Company where he successively served two years in the Department of Counsel, two years as Assistant Secretary and head of the Estates Trust Division, and is now Vice-President and head of the Personal Trust Division. He was one of the pioneers in the development of a scientific system for the review and analysis of securities in trust estates and has specialized in recent years in this work.

Mr. Young is a member of the Committee on Survey and Analysis of Trust Securities of the Trust Company Division. He has given a number of talks on the subject of the investment of trust funds and has been widely quoted on the subject.

A. F. YOUNG

JOHN A. REYNOLDS

JOHN A. REYNOLDS was born May 2, 1894. He attended the University of Detroit from which he received the degrees of A.B., M.A. and LL.B. In 1916 he became connected with the Union Trust Company where he has been ever since, except during the time spent as First Lieutenant of Field Artillery during the World War. He was elected Vice-President in 1927. He has filled various positions in the trust department but during the past few years has specialized in the development of the insurance trust business. One of the pioneers in the comparatively new movement, Mr. Reynolds has made addresses in scores of cities explaining how trust companies and banks, with the cooperation of life underwriters, may obtain this business. He has been a member of the Committee on Insurance Trusts of the Trust Company Division for some years.

JOHN C. MECHEM

JOHN C. MECHEM was born in Battle Creek, Mich., Jan. 1, 1886. After receiving his A.B. degree from the University of Michigan in 1907 and LL.B. degree from Harvard in 1910, he practiced law with the firm of Knapp and Campbell for two years and in 1912 became a member of the firm of Mechem, Bangs and Harper, where he remained until 1917.

After serving two years as Captain in the U. S. Army, he became connected with Lee, Higginson and Co. of Boston, 1919-20. He has been Vice-President of the First Trust and Savings Bank of Chicago since 1920. Mr. Mechem has made a study of trust department costs and worked for greater uniformity in fees. He is a member of the Executive Committee of the Trust Company Division, A.B.A., and of the Reserve City Bankers Assn.

JUDGE H. L. STANDEVEN

JUDGE H. L. STANDEVEN was born Nov. 20, 1878, in Boone, Iowa. After admission to the Bar he practiced law in Omaha, Neb., until

of Their BACKGROUNDS

FRED W. ELLSWORTH

FRED W. ELLSWORTH, a native of Battle Creek, Mich., started as a messenger in the first National Bank of Chicago, of which he became Advertising and New Business Manager in 1905. In 1910 he became Advertising Manager of the Guaranty Trust Company of New York, later Manager of the New Business Department and then Secretary. In 1918 he was elected Vice-President and Director of the Hibernia Bank and Trust Company of New Orleans. For the past eight years he has been a member of its Committee on Trusts and Trust Estates. He has been President of the Financial Advertisers Assn. and the Assn. of Reserve City Bankers and on the Publicity Committee of the Trust Company Division for a number of years.

1901 when he moved to Hobart, Okla., where he practiced law until 1913. For four years he held the office of County Attorney of Hobart County. In 1913 he moved to Tulsa and became Judge of the Probate and County Courts from 1916 to 1918.

In 1918 he organized the Exchange Trust Company in connection with the Exchange National Bank, and has been its Executive Vice-President and Trust Officer since that time. He is also Vice-President of the Exchange National Bank and a Director of both institutions. He has served on the Executive Committee of the Trust Company Division and is now President of the Oklahoma Trust Companies Assn. In assembling material for his address he corresponded with trust officers all over the United States and obtained accounts of their actual experiences.

RALPH HAYES was born in Crestline, Ohio, September 24, 1894. After graduating from Western Reserve in 1915, he became Secretary of the City Club of Cleveland. He acted as Private Secretary to Secretary of War Baker from 1916 to 1918 until he became Liaison Officer between G.H.Q., A.E.F. and American Commission to Negotiate Peace.

After his return to this country, Mr. Hayes became Assistant to the Secretary of War from which position he resigned in 1920 to become Assistant to F. H. Goff, President of the Cleveland Trust Company and organizer of the Cleveland Foundation, first of the community trusts. From 1922 to 1923 he was Assistant to Will H. Hays, President Motion Picture Producers and Distributors of America. From July 1923 he has been Executive Director of the New York Community Trust and, since 1927, Vice-President of the Chatham & Phenix National Bank and Trust Co. of New York.

RALPH HAYES

GILBERT T. STEPHENSON

GILBERT T. STEPHENSON is a native of North Carolina where he was born forty-three years ago. After receiving his M.A. and LL.B. degrees from Harvard he practiced law from 1910 to 1918. Since 1918 he has been a trust officer of the Wachovia Bank and Trust Co., Raleigh, N. C. He has been active in the Trust Company Division, serving on its Executive and other committees. He has presented a number of helpful addresses at trust conferences and has been one of the most prolific contributors to trust literature. He is the co-author of "Guide-posts in Preparing Wills" and author of "Living Trusts" and is now engaged in preparing a book on wills. He has made an intensive study of the probate court records of North Carolina and has investigated the costs of the settlement of estates elsewhere. He compiled and prepared the answers to the "One Hundred Questions About Wills, Estates and Trusts" and is now working on a second series on the hundred questions that life underwriters ask about trust service.

JAMES H. PERKINS was born in Milton, Mass., Jan. 11, 1876. After graduating from Harvard in 1898 he was connected eight years with Walter Baker & Co., Ltd., three years with the American Trust Company of Boston as Vice-President, six years with the National Commercial Bank of Albany as Vice-President and then as President, five years with the National City Bank of New York, first as Vice-President and then as Executive Manager. In 1919 he became a member of the banking firm of Montgomery and Company in New York. He has had experience in commercial, investment and fiduciary banking and since 1921 has been President of the Farmers' Loan and Trust Co. of New York. He is President of the Detroit, Hillsdale & So. R.R. and a director in eleven corporations. In 1914 he was President of the New York State Bankers Assn. and is at present Vice-President of the Trust Company Division, A.B.A. During the World War, he served in the A.E.F. as Asst. Chief of Staff and as Lieut. Col. of the Q.M.C.

JAMES H. PERKINS

President McLucas Points Out the Prospects for Trust Business

"THIS is the First Southern Trust Conference. These meetings have become established annual events in the North, East and West so it is with peculiar satisfaction that I call this meeting to order in this charming and picturesque city of the South, thereby completing the geographical cycle." In these words, W. S. McLucas, Chairman of the Board, Commerce Trust Company, Kansas City, Missouri, and President of the Trust Company Division, American Bankers Association, opened the first session of the Conference.

After complimenting the South on the fact that the "charming qualities of the Old South have not been marred by the stupendous industrial and commercial strides made in the last decade," Mr. McLucas spoke of the possibilities of growth of trust business in this territory as revealed by figures contained in the records of the United States Treasury Department. "In the nine states comprising the southeastern part of the country," he said, "during the period from 1922 to 1926, 5,149 deceased residents left estates of $50,000 or more, making a total of nearly $1,000,000,000. Each of these five years showed an increase in $50,000 estates, in 1926 being 40 per cent higher than in 1922. The increase in estate value has been matched by a parallel increase in the number of institutions doing a trust business. These are impressive highlights in the picture of the New South."

"The Conference idea is not new," continued Mr. McLucas. "Since it started in 1920, there have been five Regional Conferences on the Pacific Coast, three Mid-Continent Conferences, and nine Mid-Winter Conferences in New York City. These Conferences are schools of instruction, and the speakers are our schoolmasters."

"The program of the Conference," said Mr. McLucas, "is peculiarly fitted to this section of the country where trust company service is now rapidly coming into its own." The speakers are "men who have made successes in the trust company business —who are outstanding men in trust circles, and who are giving unselfishly of their time and talent for the benefit of all. We should appreciate the fact that they are sacrificing something for us. We are all in this banking business to make money and, perhaps, in the trust end of it, some of the heads of banks think there has not been enough thought given to the making of money. We realize that the trust relationship involves primary emphasis on character and service, and that the discussion of money seems to depart a little from that conception of it."

Studying Trust Costs

In speaking of the important study of costs and charges at present being conducted by the Trust Company Division, Mr. McLucas urged those who were new in trust business to study their costs and charges carefully from the very beginning so that they might get started rightly. He likened the bank of today to a department store. "Whereas trust business was formerly all in the hands of trust companies, national banks and state banks now have trust powers and offer trust facilities as part of their complete service."

Governor Paulen of Kansas, who happened to be present, was then called upon to say a few words. The gist of his remarks was that a man should be proud of his profession and that he hoped to see the day "when bankers as a class will take a much more active part in the politics of the states in which they are located, not as politicians, but as active sharers in the community and government life of their state and nation."

Three Southerners Preside

After urging the delegates to participate actively in the discussions following the addresses, Mr. McLucas turned the meeting over to W. C. Bowman, Vice-President of the First National Bank of Montgomery, Alabama. Mr. Bowman, in the course of his remarks, said, "the coming of an industrial development means greater wealth for the South; the coming of greater wealth means greater necessity for its preservation; and with the necessity of preservation comes along hand in hand trust service; and with trust service and the responsibilities it must assume comes the necessity of efficiency. Today we are glad to come and sit at the feet of these men who out of a wide experience can bring us a real message. We are glad to come to school and study for the next two days the real problems that are confronting us."

In order to promote active and free discussion, each of the three sessions of the Conference was presided over by a representative of various southern states as follows: First Session: W. C. Bowman, Vice-President of First National Bank of Montgomery, Alabama; Second Session: William A. Dixon, Vice-President, Whitney Central Trust and Savings Bank, New Orleans, La.; Third Session: E. Y. Chapin, President, American Trust and Banking Company, Chattanooga, Tenn.

What the Bank Executive Owes to His Trust Department

By ROBERT F. MADDOX
Chairman of the Board
Atlanta & Lowry National Bank, Atlanta, Ga.

The first duty of the bank executive to his trust department is the selection and training of the men who compose it. Every trust officer should possess in some measure: morality, learning, banking knowledge, legal training, business experience, accounting proficiency, expert salesmanship and personal magnetism.

Competent trust officers should be given the fullest opportunity and widest latitude, and should not be expected by other departments to perform free services or to accept unprofitable business.

The bank executive should see that all legal regulations are strictly observed; that from three to five of the ablest and most experienced directors of the board shall constitute a trust investment committee; that a periodical review of investments is made; that separate vaults and books of accounts are provided; that the cooperation of officers, directors and employees is enlisted in developing new trust business. The good will of the community and of adjacent towns should be cultivated and the trust department be provided with a proper allowance for advertising.

The trust department offers the richest possibilities of profit of any department of the bank but its liabilities are enormous.

WE appreciate the Trust Company Division of the American Bankers Association holding this, the First Trust Conference, in the South—in Chattanooga one of the most progressive cities of this section and the home of the able and beloved President of our Association.

We are all proud of the remarkable growth which the United States has enjoyed during the last decade, during which period we have witnessed the extension of business in practically all lines and the banking and trust business has well maintained its place in the front ranks in this progress and prosperity.

No section of the country has grown more rapidly than the South, which is throbbing with new life, and its present rapid growth in finance, commerce, industry and agriculture is perhaps attracting more attention than any other section of the United States.

We have also witnessed a rapidly changing method of doing business which has called for the best brains in all lines. In this rapidly changing method of doing business the banks and trust companies have necessarily had to change and enlarge their own methods of operation and no department of finance has experienced a greater growth in the United States than the trust business and its allied lines.

The rapid growth in the value of individual estates which in the past few years have amounted to fortunes undreamed of a decade ago, the capitalization of corporations and the issuance of other securities have been measured in billions, whereas a few years ago millions were thought to be the largest unit of calculation.

Trend Toward Stronger Units

The tendency recently in American banking, as in American industry, is toward consolidation and operation on a large scale. During the last year the number of banks in the country declined by about 1,000 as the result of mergers and suspensions. The decline in the number of American banks has been proceeding for some time and has been effected by consolidations among the large banks and by the absorption of smaller institutions.

For the six years ending June 30, 1927, the decrease in the number of banks amounted to 3,754. Resources, on the other hand, increased by the very large sum of $18,500,000,000. The importance of this trend toward stronger units can be seen from figures indicating the type of banking most susceptible to failure. In 1927 two-thirds of the suspensions represented banks of $25,000 capital, or less, located in villages with population of less than 1,000.

While during last year, the total number of active member banks of the Federal Reserve System declined from 9,260 a year ago to 9,034, nevertheless the total deposits of all of the member banks increased from $29,825,000,000 in 1926 to $32,263,000,000 at the end of 1927.

It was not until the beginning of this century that the South began to show signs of its full recovery from the devastation caused by the war between the States, but since 1900 the industrial, agricultural and financial growth of the South has been indeed remarkable and the trust departments of banks and

the trust companies in this section are now enjoying a large and profitable business which with the continued growth of this section is bound to be of increasing importance.

Estate Dissipation Impressive

Up to comparatively a few years ago the general practice in this country did not favor anything but direct ownership of property by those in possession of it, and the direct succession of heirs by inheritance. Usually the family lawyer attended to the management of his client's estate, or it was trusted to some individual. The result of these wasteful practices is shown in the statistics gathered by life insurance companies, showing that 95 per cent of all estates of $5,000 and over, left in the hands of individuals, are dissipated entirely within seven years.

In the average American family estates are accumulated by the strong resourceful head of the family and at his death, all too frequently, have passed into weak, inexperienced hands, thus giving rise to the statement that, in America, families usually go from shirt sleeves to shirt sleeves in three or four generations.

In order to avoid, as far as possible, the dissipation of estates and the protection of individual beneficiaries the plan of creating a trust estate with the legal title in a trustee and a beneficial interest in the heirs or beneficiaries has developed very rapidly in this country.

Because of the responsibility involved and the long period of time over which trusts usually operate and the uncertainty of life of the individual, the modern tendency is to place trust property in the hands of banks or trust companies as trustees.

Trust companies are corporations organized for the express purpose of acting as trustees. Trust companies acting in fiduciary capacities have been operating in the United States for about 100 years. The first trust company chartered in this country was the Farmers' Fire Insurance and Loan Company of New York which was chartered in 1822. The name of this company afterwards was changed to the Farmers' Loan and Trust Company.

Originally only trust companies had fiduciary capacity, but under Section 11-K of the Federal Reserve Act, national banks were allowed to apply for and receive trust powers from the Federal Reserve Board, which provides, "When not in contravention of state or local law the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardians of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which state banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the state in which the national bank is located."

Advantages of the Corporate Fiduciary

The modern trust company offers many advantages and safeguards not to be found in individual trustees and its existence is practically perpetual, thus inspiring a completion of the trust purposes over a long period of years. In the nature of things, it cannot become ill, incapacitated or die. It is always at its place of business, ready to attend to the affairs of the estate intrusted to its care.

It is accessible and convenient for the beneficiaries. It eliminates the "personal equation" and family rows, and deals justly with all. Its records are properly kept and it makes proper and accurate returns to Court when required.

Its officers and personnel are carefully selected and their cumulative experience is bound to be greater than that of any one man—it is an organization of experts, each in his particular field, and great economies are thus effected in the management of trust property.

Its capital and surplus guarantee that its mistakes, if any, will be made good, whereas the best intentioned individual might be unable to do so.

Trust company administration is far less expensive that that of individuals because its cumulative experience in the business enables it to eliminate "outside experts" whom the individual generally employs at the expense of the estate; many concrete examples are available to show the advantages of the modern trust company over the individual. So generally is this recognized by the public that today there are 2,700 trust companies in the United States, with total resources of over $20,000,000,000.

It is the paramount duty of the bank executive to foster and promote the growth and development of his trust department and to provide the essential safeguards which should be thrown around the handling and management of the property of others, entrusted to the care of his institution. The growth of his trust department and the reputation of his institution is measured by the supervision and cooperation thus extended by the bank executive.

Qualifications of Trust Executive

It must be conceded that the success of any trust department depends upon the character and type of men who compose it, and that it succeeds, or suffers, as the moral and intellectual elements of its man power prevail or fail. I would, therefore, list as the first duty of the bank executive the selection and training of the personnel directly in charge of the trust department.

Every trust officer or trust executive should possess in some measure these attributes: morality, learning, banking knowledge, legal training, business experience, accounting proficiency, expert salesmanship and personal magnetism. These qualities combined in one individual are not easily found, and the greatest criticism that has been directed toward banks and trust companies has been because of the policy in many institutions, in establishing trust departments, to set inexperienced executives over personnel from the banking department "until the business justifies the selection of a properly trained and equipped force."

This is placing the cart before the horse and

usually results in such mistakes being made that the growth of trust business is seriously affected. A store must have goods on its shelves before it can serve customers and it behooves the executive of any bank or trust company, at the outset, to select personnel capable of offering splendid service to the public. The volume of business which will surely come to such an institution within a reasonable time, will more than offset any loss at first sustained by this policy.

Once having provided competent officers, and under them the requisite personnel, the bank executive should give them the fullest opportunity and the widest latitude possible in developing the trust department.

The other departments of the institution should not be allowed to override or impose upon the trust department, as experience has shown that when this is done, all too frequently, the commercial departments of the institution will attempt to thrive at the expense of the trust department and business will be forced into the trust department in order to serve some temporary purpose of the commercial department, which will later rebound to the loss or discredit of the institution.

Rules and Safeguards

The bank executive should follow closely the requirements laid down by the Comptroller of the Currency regulating the trust departments of national banks. These are:

> First, that adequate books and records shall be installed in the trust department for all fiduciary activities, and that such books and records shall be kept separate and distinct from other books and records of the bank.
>
> Second, that the trust securities and investments held in each trust shall be kept separate and distinct from one another and shall be further safeguarded by a system of joint custody.
>
> Third, that whenever funds awaiting investment or distribution are deposited in the commercial department to the credit of the trust department, the commercial department shall first deliver to the trust department, as collateral security, Government bonds or other readily marketable securities, owned by the bank, which collateral security shall at all times be at least equal in market value to the amount of the funds so deposited.

The bank executive should provide proper supervision governing sales of property and investment of funds in trusts and estates. The laws regulating investments of executors, administrators, guardians and trustees, particularly in the South, are very narrow and the restrictions surrounding the sale of property in the foregoing capacities are burdensome and expensive.

It is, therefore, becoming more and more the custom in wills and trust agreements to give the executor or trustee powers of sale independently of Court procedure and to authorize investments in the sound discretion of the executor or trustee, irrespective of rules of law.

While this is most desirable from the standpoint of the maker of the will, or the creator of a trust, it places a very great responsibility upon the institution attempting to exercise such powers.

An Important Committee

Every bank executive should see to it that from three to five of the most able and experienced directors of the board should be named to constitute the Trust Investment Committee. This committee should prescribe rules and regulations governing the sales of property and the investment of funds and should pass upon all sales and investments made by the trust department of the institution.

This committee should periodically review all investments which have been made in the various trusts and estates being handled by the institution and give proper instructions for eliminating weak investments and the placing of proceeds in strong investments. Frequently, the trust department will take charge of all manner of securities and properties left by decedents, ranging from oil wells to saw mills and the question of how these properties should be liquidated and disposed of should receive the earnest attention not only of the trust department, but of the Trust Committee.

Another important function of the bank executive is to provide separate vaults and separate books of accounts for the trust department, so that the properties belonging to estates and trusts, and the accounts of administration, shall be entirely segregated from the affairs of the bank.

One of the pertinent questions which is often propounded to trust officers is, "What would become of my property if this institution should fail?" By segregating the property of estates and trusts, the answer can be made that these matters would not be affected by the affairs of the institution itself; but that in the event anything should happen to the institution, these vaults and books could be sealed and it would only be necessary for the proper Court to appoint some other strong institution to carry on these matters.

Aid in Securing New Business

In the development of the trust business, the bank executive can be of invaluable aid to the trust department. The principal source of business for any trust department, practically at the outset, may be reached through the directors of the institution and its important customers.

In the cultivation and development of this business, the bank executive should inform the directors of the advantages of their trust department and the work that is being carried on by the institution in this connection. Not only should the directors be solicited to place their own wills in the institution's keeping, but they should be urged in every way to carry the message of service to their friends and business associates and to lend their aid in the upbuilding of the trust business of the institution.

The bank executive from time to time should cultivate the good will and cooperation of the various important commercial and civic bodies of the com-

munity and of the adjacent towns and cities which his institution is in a position to serve, and when the opportunity offers, should appear before such bodies and speak to them on the importance of proper preparation of wills and safeguarding of property. In this way, the message of service can be extended to a very large number of people, many of whom would not ordinarily be reached by the executives of the trust department.

It will frequently happen that some important client, whom the trust department is seeking to interest in its service, can be influenced by the bank executive, or some of the directors of the institution, and in this manner the bank executive can establish contacts not to be reached by any other means.

The bank executive should also see that his trust department is equipped with attractive, well prepared publicity in the form of booklets, setting out the scope of service of the trust department and that brief messages, calling attention to this service of the institution, are sent from time to time to a carefully selected mailing list.

He should also see that the proper allowance for advertising is allotted to the trust department and that the services of this branch of his institution are constantly kept before the public.

In the preparation of wills and trust instruments, the executive should see that the bank is aided and advised by competent counsel and that every safeguard is provided to eliminate errors in this connection.

It is, in the brief time allotted to me, impossible to go into all of the phases of trust operation and management, but suffice it to say that the bank executive should at all times keep a close contact with the officers of his trust department and endeavor to aid them in every way in the extension and growth of trust business, and in the management and safeguarding of the property when received.

The trust department of an institution, while one of the least understood departments of the bank, offers the richest possibilities of profit. The liabilities, however, that are assumed are enormous and for this reason the managing executive should see that each account is considered on its merits and should never seek to achieve volume, when that volume will result in a loss to his institution, or result in liabilities not properly to be undertaken.

While serving the public, the community and the Courts in general, the institution is primarily run for profit and by carefully selecting the business to be undertaken and placing all accounts on a profitable basis, when volume is achieved, the trust department will become one of the most powerful earning departments of any institution.

In conclusion, let me say that the spirit of service should be inculcated by the bank executive into all officers and employees of his institution and through conferences they should be advised regarding the general scope of service offered by the trust department, so that each department, each officer and each employee, will give his or its full cooperation in directing clients to this department and the whole bank family will become interested in building up this phase of their business for—"In Unity There Is Strength."

Discussion

CHAIRMAN BOWMAN: Mr. Maddox, we all agree that that was a very fine address. Mr. Maddox has brought out vividly, strongly, one phase of the trust business that some of us feel is perhaps being somewhat overlooked—the qualifications a trust officer should have.

Is there any point that anyone would like to bring out at this particular time?

Writing of Wills

B. W. BARNARD (Assistant Trust Officer, Central Bank & Trust Company, Asheville, N. C.): At one point Mr. Maddox suggests that the bank executive take care that adequate counsel is provided for the trust department in connection with the preparation of wills and other papers. Does he contemplate thereby that the trust department should prepare wills and trust indentures for its prospective clients?

MR. MADDOX: In many sections of the country that is not the custom. I think it is the custom in a great many trust companies, however, where clients desire to consult the legal representative of the trust company, to have them prepare the will. In our own bank we have wills prepared by a variety of lawyers, but if a client should come in and desire us to draw the will, we would have our attorney assist the person in drawing the will.

TROY BEATTY, JR. (Trust Officer, First National Bank, Memphis, Tenn.): This is a question that to my way of thinking hasn't been settled satisfactorily at all. In Memphis some years ago we had a great deal of antagonism and I think, more or less jealousy on the part of the bar, who felt that we were usurping some of their functions. Now we have an association of the five banks that handle fiduciary matters, and one of the first things we agreed on definitely and positively was that we will not draw wills. We will not have our general counsel do it. We don't mind discussing it with him, but we have told the Memphis Bar very definitely that we will not do that. I should dislike to see it go out to the press that this meeting had sanctioned the idea of the general counsel drawing wills. It will hurt us a lot and I don't believe it is intended at this meeting.

PRESIDENT MCLUCAS: It is an important question that the Trust Company Division has spent a lot of time on. We have a standing Committee on

Cooperation with the Bar. The laws of many states give no choice in the matter. In Missouri, where I live, we cannot do those acts. I think Illinois has a similar law. There is a pending case in Chicago, where just recently an attack was brought on a trust company and on all trust companies, that was fathered by the Chicago Bar Association and the Illinois State Bar Association. The question of trust companies practicing law has been a great question in New England. I think the best thought among trust men is that trust companies must not draw wills, must not do the acts that lawyers do. They may advise and participate in it, but they must not practice law. The position I ascribed to trust companies generally is also the position of the Trust Company Division, namely, that institutions and trust companies must not practice law.

LARRY D. JONES (Cashier, State National Bank, Frankfort, Ky.): May I ask one question? Would the writing of a will and submitting it to the attorney for his approval after it is written, but before it is signed, with all the details worked out with the prospect, be practicing law in the light of the practice of the Trust Company Division?

PRESIDENT MCLUCAS: I perhaps am not qualified to answer that as I am not a lawyer.

REUBEN A. LEWIS, JR. (Secretary, Trust Company Division, A. B. A.): Gentlemen, I think I can amplify somewhat the remarks that Mr. McLucas has made. We have a Committee on Cooperation with the Bar, of which Mr. Robertson Griswold of Baltimore is Chairman, and it is our policy to discourage in every way trust companies doing a legal business in any form. We find that where trust companies and banks are active in any way along this line they do not get the cooperation of the bar, and that furthermore, this activity causes the introduction of legislation which, if passed, might seriously embarrass trust companies and banks in all parts of the country. We would strongly urge that the banks and trust companies do not draw wills. It has been found that where definite assurance, such as Mr. Beatty has spoken of, is given to the members of the bar, cordial relations exist. The trust companies in virtually all cases I have heard of are not averse to being consulted about the practical phases of a will. As to the actual drawings of wills, the Trust Company Division feels that this is a matter a man should take up with his own lawyer.

Payment for Will Drawing

W. J. TOLTON (Assistant Cashier, The First Bank & Trust Company, Pensacola, Fla.): In having the bank's attorney draw these wills, or even when the client has his own attorney draw the will, does your institution acting for your client pay for drawing the will, or does the client himself pay for it?

CHAIRMAN BOWMAN: The Chair would say that he has personally never known of a case where the trust company has expended money for the preparation of the will. I think that would be the general answer, but I may be wrong.

W. J. TOLTON: We quite frequently have clients of that kind come to us and ask our attorney to draw the will, thinking that we should pay the attorneys.

B. W. BARNARD: I know of several trust companies that have in the past pursued the practice of paying for the drawing of the will by the attorney at the selection of the client. That practice is condemned by the Trust Company Division of the American Bankers Association.

PRESIDENT MCLUCAS: Mr. Taylor of the Illinois Merchants Trust Company is here. He probably knows more than anybody in the room about this. I think he might tell us something about it.

F. F. TAYLOR (Vice-President, Illinois Merchants Trust Company, Chicago, Ill.): It is a rather serious question with us in Illinois, this matter of the practice of law by trust companies and, as Mr. McLucas has said, we have a case before us now that will come up in the courts, that we are watching with interest. We are very much in sympathy with the Bar Association's action in that matter because the trust company in question, I believe, was practicing law rather promiscuously. Inasmuch as they were, of course, we would be glad to have the practice there and elsewhere stopped. It is not our practice to draw wills in any way. It is not our practice to pay for the drawing of wills. We find there are people, whether they are Scotch or not, I don't know, who are looking to have work done, and especially legal work, without a fee. However, they are greatly in the minority, and we find that if people are confronted with the suggestion that the drawing of a will is a serious and important matter and is certainly worth any price within a reasonable amount that can be asked for the drawing of it, that they are entirely willing to pay the price, whatever it may be. Of course, there are people who will accept things for nothing, and there are trust companies and individual trust officers who are always thinking up a way to get the business and to do the things the other fellow does not do, in order to get the business.

In our opinion, however, and I think it is universally so in Chicago, we think it is poor practice to offer to do any sort of trust service that is of any consequence, outside of the matter of accommodation, without charging a reasonable fee for it, and it is poor practice further than that, to encourage clients to feel that they should have an important document like a will or trust agreement drawn without properly paying for it.

Importance of Consultation

J. H. GREEN (President, Decatur Bank & Trust Company, Decatur, Ga.): I think the position that has been taken, that trust companies should desist in the practice of law, is correct. In every case where it is known that anyone is contemplating making a will naming the trust company as executor, there should be a conference between the trust officer and the lawyer of the party. To give an illustration of the importance of that, which has come up recently in my own experience, there was a will

drawn by a party who died recently. Several years ago he named his trust company as executor. While I did not ask to see the will, he showed it to me, but I didn't read it. After his death, when I learned I was to administer the estate, I found I was very much hampered by the absence of the power of sale to enable me to convert securities into money, and it was necessary for me to go to court in order to get authority to do it. I would have obviated that if the testator had consulted me. I would suggest where it is possible that a conference be had between the lawyer who draws the will and the trust officer.

Situation in Texas

A. B. CULBERTSON (Trust Officer, First National Bank, Fort Worth, Tex.): In our city, Fort Worth, there is a most cordial relation existing. We very religiously refuse to write any sort of legal instrument. I am sure, the result is that there is almost daily a name sent to us by one of these lawyers. "How do you name your bank?" "Have you a trust department down there?" There is never a week passes that I do not telephone some lawyer at the suggestion of his client, saying "I am sending a client to have his will drawn." I believe I can say honestly that Fort Worth has a wonderful spirit of cooperation between the banks there and the bar.

CHAIRMAN BOWMAN: The next speaker scheduled on the program is Governor Black of the Federal Reserve Bank of Atlanta, but he has been detained in Havana on official business and it will be impossible for him to be with us today. We find, however, in looking over the distinguished gentlemen who have attended this Conference, one who is an authority on various phases of banking, and I am going to ask R. E. Harding, Vice-President of the Fort Worth National Bank, if he will not be good enough to say a few words upon the subject of the development of trust departments in the national banking system.

Trust Departments in Banks

MR. HARDING: The development of trust powers by national banks has been rapid only in the past few years. The first permit was granted to national banks, as provided in Section 11-K of the Federal Reserve Act, February 25, 1915, and since then there has been continuous growth. In the early years in the operation of the law, national banks, being entirely human, asked for the powers, not knowing what they meant, and not being prepared to carry on, and the Federal Reserve Board granted those applications without very much examination to see if the banks were serious in their applications; but in later years the Federal Reserve Board has scrutinized each application and does not grant those powers at present unless the national bank has a duly organized department and is prepared to carry that department through under the strict law, and prescribed rules and regulations.

The development of the trust powers in national banks in the past few years has been due principally to the hearty cooperation by the trust companies of the United States. It is true that when this law was proposed, the trust companies also being human were not over-enthusiastic that this new competition should come into the field, but after the law was passed their cooperation and help and suggestions have been indeed commendable, and it is through that cooperation that national banks have come to develop their trust departments to the present degree.

It is stated in the 1927 annual report of the Federal Reserve Board, which has just been issued, regarding the trust activities of national banks, that "since the first fiduciary permit was issued by the board on February 25, 1915, there has been a continuous growth in the number of applications made for permission to engage in the exercise of trust powers, and at the end of 1927 there were 2,264 national banks, or 29 per cent of the total, that had authority to administer trusts. These banks had a combined capital of $914,619,000, representing 60 per cent of the total capital of all national banks in operation.

"National banks numbering 1,382, with a combined capital of $697,240,000, had established active trust departments on December 31, 1927, and, from the most recent reports on file for 1927, were administering 39,174 individual trusts, with assets of $2,079,858,237. Of these banks 544 were also handling 6,409 corporate trusts and acting as trustees for bond and note issues aggregating $6,354,-713,735.

Tremendous Increase

"This represents an increase of 278, or 25 per cent, in the number of national banks administering trusts over June, 1926; an increase of 19,530, or 75 per cent, in the total number of trusts being administered; and an increase in individual trust assets of $1,157,529,560, or 125 per cent, over the same period. The amount of bond and note issues for which national banks were acting as trustees showed an increase of $3,891,160,419, or 158 per cent, over 1926.

"The earnings from trust department operations have kept pace with the steady growth of this activity, and amounted to $10,811,000 for the fiscal year ended June 30, 1927, against $8,255,000 for 1926, $5,951,000 for 1925, and $5,059,000 for 1924.

"While nearly a third of all national banks now hold permits to exercise fiduciary powers, 882 of the number having such authority, with a combined capital of $217,379,000 on December 31, 1927, have not started to administer trusts, but during the year 428 made provision through the adoption by their respective boards of directors of resolutions providing for the organization and operation of a trust department and placed themselves in a position to administer trusts.

"National banks during 1927 showed continued interest in the privilege afforded them to include the words 'trust company' in their titles. At the beginning of the year 101 were operating with the words 'trust company' in their names, and since

that time 72 banks having authority to exercise trust powers obtained permission from the Comptroller of the Currency to amend their titles to include the words 'trust company.' "

It was my intention to call attention to the rules and regulations and the safeguards surrounding the administering of trusts by national banks, but Mr. Maddox has so ably explained them that it is not necessary.

In this report, let me call your attention again to the statement that where one third of the national banks have obtained the permit to exercise fiduciary powers, nearly 900 of these banks have so far failed to exercise those powers.

Further Development

The examination of trust departments in national banks by the Comptroller's office is very thorough, and I think one of the subjects that could well be covered by these trust conferences is that of adequate records, because of the stress laid upon them not only by the Comptroller's department but by the Federal Reserve Board and the law itself.

By the development of trust departments in national banks along the lines laid down by Mr. Maddox, and the studying of the subject through such conferences as this, these banks that have the power can adequately function. I look for a development in the next three or four years even far beyond the report just read. It is through these conferences, and through the hearty cooperation of the trust companies who are the pioneers in the field and who know more about it, that national banks can further develop their trust departments. Of course, it is only by a strict interpretation and an understanding of the law and rules and regulations that these trust functions can be properly established in national banks.

Handling Securities in Trust Estates

By A. F. YOUNG
Vice-President
Guardian Trust Company, Cleveland, Ohio

Every trust organization must have a "securities analysis expert." Around this specialist should be built a machine and a process through which every security must pass regularly and certainly.

When a new trust comes in, the first step is to classify the securities in five groups—Prime, High Grade, Medium, Speculative, Worthless; and then into the nine main classes—(1) Rubber, (2) Steel and Iron, (3) Oil, (4) Rails, (5) Public Utilities, (6) Financial, (7) Mining, (8) Tobacco and (9) Miscellaneous.

After analyzing each security completely and preparing a complete layout or picture of the trust as a whole, there is created for each trust an investment program which, after passing the scrutiny of two committees, must be finally approved by the Board of Directors before it goes into effect. There should be a continuous analysis and periodic review of investments. A complete written record of all action taken should be kept in a book indexed both as to securities and as to trusts.

"Policy, system, procedure are all merely facilities for the better exercise of experience and judgment."

WE Americans are accused of making a god of success; of overworking the word "service." But, be that as it may, we know that a trust client demands service raised to the *n*th power, and a degree of success in choosing sound securities which he himself cannot attain. Trust departments must furnish him these if they are to get and keep the confidence of the public. They may be dilatory in filing accounts, in making stock transfers, in managing real estate, in soliciting new business, in fact in almost any other trust function, and the damage will be relatively transient and limited. But for failure to select the right securities there is no alibi, and when a trust customer loses on an investment of the bank's choosing he usually suspects that the bank made money out of his loss—and he tells the world all that he suspects.

But, if the responsibility is great so is the opportunity. Was there ever in history an investment era like this? The onward sweep of the country's wealth, the ever broadening investment markets, modern intricacies of accounting and taxes, decreased purchasing power of the dollar, billion dollar losses each year by inexperienced investors (nine million dollars through fraudulent and worthless securities each year in the city of Cleveland alone), shifting values in real estate due to new methods of transportation and living, unprecedented days in the stock market—a hundred factors are making clear to the individual investor as never before that the job demands the specialist. He may not be sure of the banker's perfect competence, but at least his own incompetence he knows and admits.

A Waiting World

Here then is a wide market, a willing public, a world waiting to be conquered. If we can "deliver the goods" that world is ours.

Before we hold ourselves out as proper agencies to take charge of a man's fortune we must be ready to offer him a scientific combination of facilities, an experienced judgment, a protection against whim and prejudice, which no individual can reasonably hope to duplicate. Life is too complex for any one man to do everything, or even many things, well. The day is past when a lone trust officer can function as a salesman, executive, lawyer, counselor, friend, and in addition be an expert in security analysis. Only by cooperative and coordinated specialization can we give the public that quality of service and that measure of success which it demands.

In every trust organization, however small, there must be at least one security analyst, chosen not because he was a popular teller but because he is "security-minded," thinks and lives securities, and takes his delight in studying market conditions, financial statements, and kindred matters by which nine out of ten men are only bored. Around this specialist will be built a machine and a process through which very security must pass, regularly and certainly.

What should this process built around the security analyst be? The word "security" means assurance, safety, protection, and any plan for handling securities must have the great objective of protection—first to the customer and his estate and second to the trustee.

The Analysis Department

The term "securities analysis department" will be used frequently. "Department" is a variable term that may include 1000 men, or only one—sometimes even less. Everyone has seen struggling business concerns with little backing, but much front, and and one door lettered and littered up with "sales department," "credit department," and "purchasing department." Back of that door was one man at one desk, each department having presumably just one-third of a man to manage it. So when the "Securities Analysis Department" is mentioned it means the one security anlysis expert in a small bank, and that expert and his associates in the large bank.

Whether the department is one man or many, the very first thing to do when a new trust comes in is to send a complete list of all its securities to the Securities Analysis Department, accompanied by a work sheet giving in detail the status of the trust, the beneficiaries, the income requirements, the tax situation, and the bank's investment powers. The securities analysis department will at once classify the securities as (1) prime, (2) high grade, (3) medium, (4) speculative, (5) worthless. This classification will fix to some extent the degree of supervision which must be given to the securities and will determine the frequency of their review and the urgency of liquidation. The worthless securities are of course charged off. The securities analysis department will also classify the securities into nine main groups, as follows: (1) Rubber, (2) Steel and iron, (3) Oil, (4) Rails, (5) Public Utilities, (6) Financial, (7) Mining, (8) Tobacco, (9) Miscellaneous.

This grouping insures that any development affecting a particular class of securities will at once be considered in the proper connection; for example, that general conditions affecting railroads will be applied to all railroad securities held by the trust department.

Factors Considered in Analysis

The securities analysis department should then prepare a file on each security and write a complete analysis, giving its conclusions as to its investment position. In this analysis the securities analysis department considers the history, line of business, location, management, past and present earnings, future prospects, kinds and amounts of securities outstanding, and dividend record. Those who make the analysis, study balance sheets, earnings reports and extensive statistical services. Interviews with corporation officials are frequent; in fact, every possible effort is made to obtain accurate information.

As soon as this information and the files of the trust are complete, the securities analysis department makes a complete layout or picture of the trust, showing the securities by class, the market values, the Moody rating, if any, the percent of principal which each security constitutes, the income produced by each security, and the total income and rate of return on the trust as a whole. This set up-will be a pretty complete picture of the estate.

The Investment Unit

In this form the securities analysis department takes the trust to the so-called trust investment unit, made up of the head of the trust department and such assistant trust officers as may be delegated for this service. Among these officers is one intimately informed as to the beneficiaries and their ages, the probable life of the trust, and other specific requirements. There are a lot of factors, including longevity, which must be taken into consideration.

The trust investment unit now proceeds to create an investment program for each individual trust. No set program will fit all cases. It must be as highly specialized as the diagnosis a physician gives an individual case. The customer may be an active business or professional man; he may have retired from business, or may have gone away on leave of absence. The customer may be a woman with independent means or a widow entirely dependent upon the income from the trust. There may be children to be educated and developed.

How money shall be invested, what is the proper balance among stocks, bonds and mortgages, what percentages of different classes of bonds should be considered, what units and what limits should be established in the proposition of a single issue, are points of importance upon which policy may change as the years go by. At the present time I am inclined to feel that the limit for investment in any single item, however attractive, may well be 5 per cent. This assures diversification in at least twenty directions. A well balanced investment program which the Guardian Trust Company applied recently was arranged as follows:

Mortgages and ground rents.....	20%	20%
Bonds:		
Real estate	10%	
Government and Municipal	10%	
Industrial	10%	
Public Utility	10%	
Rail	10%	50%
Stocks:		
Industrial	10%	
Public Utility	10%	
Rail	10%	30%
		100%

This plan, of course, establishes a goal to be gained over a period of time, with a shifting of securities gradually as market conditions provide opportunity.

Common Stocks in Trust

As to what proportion of the total may be placed in common stocks there naturally will be much difference of opinion. I believe that common stocks have a proper place in the list of certain classes of trusts; that the stockholder has a chance to gain in his principal through moderate holdings of high grade common stocks; that diversification can cor-

rect irregularities of income; that the modern dividend policy is toward steadiness, and that while the bondholder's purchasing power depreciates, common stocks and the dividends thereon adjust themselves far more rapidly. This, however, is a question of policy by itself.

The trust investment unit, bringing its intimate knowledge of the individual trust and its wide general experience to bear upon the fundamental technical data of the securities analysis department, sets up a program for each trust and then summarizes its conclusions into formal, complete minutes.

Trust Committee

All this material now passes to a trust committee, composed of seven members of the bank's directorate chosen for special fitness in investment matters. Completely supplied with information this trust committee obviously can perform its duties intelligently, accurately and quickly. This committee is in effect a court of review, which seeks to rule out all previous personal bias or self-interest, and to apply the broadest business judgment and integrity to the case in hand. It should approve all securities to be bought or sold, and all investment programs. I know of some banks where it sits in on preliminary discussions also, but that to my mind is a mistake, involving possible loss of perspective.

The conclusions of this trust committee are then written into formal minutes and the entire case goes to the board of directors of the bank for the final and legal approval of the institution.

Having passed the acid test of the securities analysis department, the trust investment unit, the trust committee, and the board of directors, the work of continuous analysis begins. A work sheet is now made out showing how the new trust is to be invested and diversified. The trust as thus set up is referred back to the securities analysis department to be carded and catalogued for continuous attention.

The work sheet not only shows the present securities in the trust, but the eventual diversification. The trust officer primarily charged with the administration of this specific trust retains this work sheet and sees to its that the changes of investment are carried out in accordance with the plan adopted.

Periodic Review

Each trust is periodically reviewed in the same manner and by the same bodies that passed on it originally. This is of the utmost importance. To neglect this feature would be like expending great care to insure the selection of the best possible automobile, and having purchased it, never to replace the oil in the crankcase. When you are running a trust you are running a delicate machine that is not "fool proof," and requires lubrication and constant care.

It is obviously impracticable to examine each trust daily, but the periodic review is supplemented by a process of continuous analysis, not of the separate trusts but of the securities held in trust funds. The frequency of this analysis varies of course with the nature of the investment. In the case of some common stock the analysis is a daily affair. All this is done by the securities analysis department, and its reports are available to and constantly examined by every trust officer.

Last but not least—in fact this record is so important that the Guardian Trust Company calls it its "Bible"—is a book indexed two ways, one as to securities, the other as to trusts. On the page headed "American Ship Building Company," for example, is a note as to every official step that any committee or officer has taken with reference to the securities of that corporation. On the page referring to the trust of Mary Jones are similar notes recording every action by any committee or officer pertaining to her trust.

Thus we have before us a complete history of the security or of the trust in question. Outsiders are prone to smile at the many "conferences" and "meetings" which consume so much of a trust officer's time, but they would smile less sarcastically if they knew how many of these meetings are opened, if not with prayer, at least with a reading of the "Trust Bible."

The Invaluable Record

In protecting the customer and his estate we automatically gain for ourselves the greatest measure of protection. So, for our protection and the customer's too a complete written record is kept at every stage—by the securities analysis department, the trust officers, the trust investment unit, the trust committee and the board of directors—and the history of each security and of each estate is an open book to every person who properly should read it. A trust department cannot run on oral traditions, word of mouth and individual memories. Its records must be legible, intelligible, permanent, and available for constant and instant use.

One more thing is required, and it is the greatest. Policy, system, procedure, these are all merely facilities for the better exercise of experience and judgment. Upon the quality of leadership and ability within the trust department hinges the success or failure of the whole trust investment program.

With the gigantic development of wealth and of trust business in this country, where are these specialists in securities analysis—these trust department leaders—to be found, and how are their qualifications to be decided?

The only answer is that we must find them. It is for our universities to develop courses that will meet this great new demand for technical training. It is for our trust departments to understudy their present officers and multiply this ability. It is for the Trust Division of the American Bankers Association to cooperate in these directions and to set up such practical tests as will safeguard the trust function from incapable and inexperienced workers, while giving the amplest encouragement to those who qualify.

Discussion

CHAIRMAN BOWMAN: I am sure Mr. Young's talk in itself has justified our attendance here today. It is something that has come out of a tremendous experience, and presented to us in a most excellent manner.

Stock Transfers

Mr. Young, the Chair would like to ask you one question: In the purchase of common stocks, in order to enable the resale without a lot of red tape and the furnishing of trust instruments to the transfer agent, and dealing perhaps with minors, is there some practical, simple way, instead of taking it in the name of the trust itself and going through that routine, that has been arrived at whereby a stock can be readily transferred when it is taken into the trust?

MR. YOUNG: Our stocks are held in the name of the Guardian Trust Company, or of our nominee without any further designation whenever possible and practicable and our problem is simple in that case. All that we need there is a resolution of our Board of Directors upon the transfer of the stock.

W. M. BUIE (Vice President, Capital National Bank, Jackson, Miss.): Does that apply also when you are acting as executor and administrator?

MR. YOUNG: In some cases.

CHAIRMAN BOWMAN: A national bank couldn't hold stock.

MR. YOUNG: I am not familiar with that.

Purchase of Securities from Own Bond Department

J. B. WEBSTER (Vice-President, American Southern Trust Company, Little Rock, Arkansas): Does your institution buy bonds from its own department?

MR. YOUNG: We buy absolutely no securities from our own investment department nor sell any securities through that department. We operate entirely separately with our own trust investment division.

MR. BUIE: Is it a violation of the national bank law for a trust department bank to buy its securities from its bond department?

MR. YOUNG: Of course, I am entirely unfamiliar with the national banking laws so far as investments are concerned. We are strictly a trust company operating under the laws of the state of Ohio. In our state it is illegal to buy from our own investment department—at least our Attorney General has made a very strong ruling on that point. It is our own policy, and I think should be the policy of all banks, that the trust department shall have no dealings whatever with the investment department. I think that is the only sound policy for any bank operating a trust division.

R. G. STEPHENS (Trust Officer, Trust Company of Georgia, Atlanta, Ga.): I should like to ask if, in the case of estates or trusts in which bonds or other very desirable securities are liquidated, he has any plans for retaining those in the institution, so that other trusts can be supplied from some sort of pool and the desirable securities which must be sold from one estate will not pass into outside hands.

MR. YOUNG: Of course that is a very good question, and I can answer it by saying that very few good investment securities ever get outside of our bank. I might say that the mechanics of that are that securities are held frequently by the investment department of the bank,—merely held there for the trust department,—and in other cases they are held in a special division in our trust department.

LEONARD MARBURY (Assistant Trust Officer, The Washington Loan & Trust Company, Washington, D. C.): That is a very valuable suggestion in this respect: In our institution we have a fund known as securities only, and where high grade municipal bonds or very desirable investments which we all know are very difficult to obtain, have to be sold in order to liquidate some particular estate, we put the most desirable of those securities in the securities fund, and whenever we have an estate or trust fund which desires them, we allow that estate or trust to purchase from the bond department identical securities at the same price at which they were sold, charging only the interest accrued in the meantime for the use of the bank's money.

CHAIRMAN BOWMAN: That, I understand, Mr. Young, is your practice.

PRESIDENT MCLUCAS: I think that brings out a very nice question. I notice Mr. Young's answer was very firm about the purchases of securities from their own investment branches. That is a standard and is the law of many states, as I understand it. I think in answer to the question made a while ago, as to whether a trust investment department can invest in securities purchased from the institutions, that the practice in many institutions in this country is to purchase securities for trust estates from their own investment departments. I know the lawyers will argue against it. I think the banker is justified in saying, for instance, "We have invested our money in our own bonds. That is evidence of our belief in their quality." Of course, the fine question is how we get them out of that department, having shown our confidence in them by buying them into a trust estate, which is a very sacred act. The same way with real estate loans. I think the answer to the gentleman back there is that many institutions of great consequence do buy securities for trust estates, from their own investment departments.

MR. YOUNG: I am sure that is done in many cases. It is just a question of policy and of law. What position would you be in in connection with those securities, if you suffered a loss on the sale? It would certainly seem that the bank would be held responsible for the loss under those conditions. I must say we have missed many wonderful oppor-

tunities to purchase securities for trust funds because of that limitation in our situation. We have been unable to buy some securities that we had the greatest faith in. Nevertheless, we have adhered to that policy. We feel it will work out best in the long run.

W. A. DIXON (Vice-President, Whitney-Central Trust & Savings Bank, New Orleans, La.): If the individual executor or trustee should buy securities for any estate for which he was executor or trustee, he would be the absolute guarantor of those securities, and I believe that any trust department that buys securities from its investment department will be held as the absolute guarantor, and it will not be a question of good judgment or good faith, and will be called upon absolutely to replace any loss. In our institution I know our board has passed a resolution specifically forbidding the purchase of any bonds from our bond department for trust estates.

R. G. STEPHENS: What I had particular reference to was the disposition of securities which are authorized by the laws of the state under which the institution is operating, and there is no liability on the executor or trustee who invests in securities authorized by law. Furthermore, in connection with dealing with your own securities, in the preparation of wills that is one point that we ask the prospective testator whether or not he will agree to permit us to purchase or sell through our own securities department with no greater responsibility than we would incur in dealing with an outside broker, and where it is agreeable to him we write that in the will of the trustee or executor, and we have found so far very little objection to it. That would fully protect the institution. Of course, they would have no greater responsibility. On the other hand, they would have the same responsibility as if they were dealing with an outside broker, and in that way we can frequently save to the estates and trusts the commissions which they are usually charged by the outside broker.

CHAIRMAN BOWMAN: Mr. Young, especially in some of the smaller institutions throughout the South, as it is with ours, do you find it rather difficult to make investments of your funds immediately when they come in, in the character of securities that are ultimately finding their way in? Our institution in some instruments provides also the right to sell from our securities department, securities having the regular marketable value at the same price as sold to the general public. The bank carries securities of high grade municipals, joint stocks, something of that kind in the bank, and if a fund of $100,000 or $50,000 would come in, it might be sixty days before that fund is eventually put into the permanent securities. In order to afford some source of revenue from that and in order to save the brokerage and the market speculation from buying the bonds and selling them again, the funds are invested in standard securities owned and held and traded in and approved by the board, sold by the bank, and sold back to the bank as permanent funds for investment.

MR. YOUNG: I think that is a wonderful thing to do where you have the authority to do it. Certainly I would do so under the conditions you state.

Re-investments

B. W. BARNARD: How often do you consider re-investment of your funds that come into your trust from the sale of securities or the payment of bonds that mature? In your discussion you suggested that ultimate investment is up to your directors after the analysis had been made and recommendations furnished. The directors meet once a month. Do you consider that these investments should be made monthly when funds accrue?

MR. YOUNG: As to all securities on which we can definitely figure the maturity, the investment is laid out ahead of time. We have constantly available in our trust department a list of securities which has been approved by our Trust Committee. It is from this that we draw in the interim between our Trust Committee meetings.

W. A. DIXON: I should like to ask Mr. Young in what unit of the trust department re-investments are initiated.

MR. YOUNG: Of course we have a rather interesting situation. We have in our trust department a man whom we call a liaison officer between our trust department and our securities analysis division. To his desk is brought the list of all securities which are maturing in the department, and to his desk comes each day a list of trusts in which money has been received. He then takes that to the trust officer and together they go over it. From there it goes to the securities analysis department which weighs the situation in the light of the program that may have been set up for that trust, and the recommendation then comes through the securities analysis department.

J. H. GREEN: In view of the fact that you hold certain securities in the name of the trust company, how are they ear-marked by the particular securities in the particular state?

MR. YOUNG: Merely by the record, by the trust members, and by their filing. The files of each trust are kept separate and apart. They are under the constant supervision of the local clearing house association, our state banking department and the Federal Reserve Bank.

V. A. J. IDOL: (Vice-President, Commercial National Bank, High Point, N. C.): I should like to ask Mr. Young when he purchases securities from the outside and is allowed the usual bank concession or commission, if the bank takes that commission or concession as profit, or does it give it to the estate?

MR. YOUNG: The bank makes absolutely no money on the purchase or sale of securities. If it buys them at one-quarter off, for example, the trust gets the profit.

National Bank Requirements

A. S. GORENFLO (Cashier, First National Bank, Biloxi, Miss.): I should like to know, Mr. Chairman,

if the Federal Reserve Board has any recommendations or restrictions on the investment of bonds. We have that question come up very often.

MR. YOUNG: We are a member of the Federal Reserve System, but not a national bank, and perhaps are not under the restrictions to which you are subject. I am sure I could not answer that.

A. B. CULBERTSON: I had occasion to investigate the question asked as to the kind of bonds that may be invested in by a national bank. The Federal Reserve Act provides that if the instrument authorizes the board of directors or the bank to exercise that discretion, they may invest in any securities that the competing bank or trust company could invest in, and that they can invest only in those classes of securities that the board of directors approve, so that if the board of directors approves an investment I take it to mean that that is a legal investment under our national banking laws.

American Institute of Banking

CHAIRMAN BOWMAN: We are sorry that Mr. Stonier, the Educational Director of the American Institution of Banking of New York, is ill and unable to be with us today. In the absence of Mr. Stonier we have asked a gentleman who has played an important part in the banking world, and who is now serving as the Vice-President of the Savings Bank Division of the American Bankers Association, to talk to us upon the subject, "How the American Institute of Banking Trains Trust Men." I am going to call upon Mr. Taylor R. Durham, Vice-President of the Chattanooga Savings Bank & Trust Company.

MR. DURHAM: As you perhaps know, the Institute now has some sixty-odd thousand men as members. There are more than 38,000 attending the regular classes provided for by the Institute. Beginning with a curriculum of one course, as I recall it back in the old days, composed of a very simple book on banking, they have now expanded that curriculum until it will include, as soon as it becomes prepared and arranged, eight courses. Among those courses is one on trust functions. I have just received, although I have not had the time to go over it carefully, their last book on trust functions.

I was invited to speak before the Tennessee Bankers Association and to make an appeal for the young men in the banks to engage in Institute work, because of the splendid training and the incentive to grow it gives them, and for the good that it does the banks for the young men connected with them to know the business in which they are dealing. I appealed to the bankers present at the convention to go home and encourage the young men, and to insist, if necessary, upon their taking this Institute course. After the convention two or three bank examiners who had had a great deal of experience with our bankers throughout the state, came to me and said, "You made a great mistake. The thing you should have done was to tell the men present to take that course." If I say to you today to encourage everybody in your department to take this Institute course, I may be shooting a little wide of the mark. It may be that some of you would like to take it. I submit that it is not fair to the public, to the people who come to you and impose confidence in you, who lay all before you and say, "Here it is, when I am gone you handle it," for you to experiment, to practice, so to speak, upon the first few or the first dozen or first hundred trusts that you undertake.

It is absolutely essential that you know the stand you should take, the course you should take, the methods by which you should handle an estate, so before you start your trust department you should acquire all the information possible upon that subject, The book, "Trust Functions" is prepared by men who know the business. There is a formidable list of authors of this book, who through collaboration have gotten together the essential points of trust functions. I am sure it will be very interesting.

Furthermore, I think it is quite essential that everyone in your department, down to the office boy, should know the essential features of the daily work, know the things that you are attempting to accomplish. That will throw safeguards around the handling of your details that will be invaluable in your work.

The Field for the Life Insurance Trust

By JOHN A. REYNOLDS
Vice-President
Union Trust Company, Detroit, Mich.

$16,000,000,000 in life insurance was sold last year. At this rate, life insurance in force in the next generation will equal our entire national wealth. The bulk of life insurance is paid in lump sums and frequently to people unfitted to invest it wisely.

The discretionary power given a trust company or bank in the distribution of the principal is one of the most valuable features of an insurance trust.

Much life insurance could be sold by able life insurance men who will show a prospect that the same institution which has, year in and year out, assisted in the development of his business and his estate, is in a proper position to take care of his dependents after he is gone. The insurance trust is particularly useful in the case of partnerships and close corporations.

The insurance trust should appeal to insurance men because it provides supplemental selling arguments; to the trust man because there is no business that comes more clean. It offers a tremendous field to both.

AS there are a number of insurance men here, I am going to treat my subject, as much from their viewpoint as from that of the trust officers of the institutions represented here.

Both the life insurance men and the officials and members of trust companies and banks in this country are coming to a realization that they have a good deal in common. Not so many years ago there was a distinct separation between the lines of endeavor that each was attempting to work out. The body public, through the instrumentality of the insurance men and the officers of trust companies who are salesmen, have been made aware recently of the fact that these two units are the only groups in the economic structure of this country who are selling institutional service, and so it perhaps is pertinent that we discuss a bit of the history of life insurance before entering into the matter of life insurance trusts definitely, whether it pertains to the increase of that business in the South or elsewhere.

New Status of Insurance Man

The insurance business is a most interesting one to study. It has a history that is unique in American business life. In the old days the insurance man was considered to be something of a peddler. He was looked upon as an itinerant vendor who went from place to place seeking a trade that did not want him, that did not understand his commodity, or that had no particular use for it because it was considered a luxury.

There have been many things which have happened in the insurance business that have brought about a change in the public's attitude towards the insurance man, and a relative change has taken place in the insurance business itself and it is because of these things that insurance now becomes something that is very interesting to all trust men and to all trust institutions.

As the public became more aware of the desirability of insurance to meet its various needs in the varying conditions of business life, as well as domestic life, it forced upon the insurance companies the necessity of broadening their policies and of taking in many things that they did not include in the old scheme.

This broadening of policies demanded that those who sold insurance would be of a higher type than previously and so, today, after the run of things has taken its course, we find the life insurance man in the average metropolitan city, more or less of an insurance counselor. He is someone that goes to his client with able advice, and the old garb of the itinerant peddler has passed away entirely.

Insurance Mostly Paid in Lump Sums

As the needs of business life required the insurance companies to broaden their policies, they adopted the many optional settlement contracts which permit the payment of insurance proceeds in stipulated sums over a period of time. This was done largely because they found that in many cases the proceeds of policies that were paid in bulk became squandered, were being dissipated, were being used for things other than the matters in the insured's mind when he first purchased his policies. In order to do away with this dissipation of wealth, with this rash investment of insurance monies, the insurance companies, realizing that sales resistance was being built up, entered into their contracts many provisions which provided for

the payment of this income in stipulated amounts over a period of time.

In spite of the fact that great pressure was brought to bear upon their representatives to sell these kinds of policies, little headway has been made and even today, after a generation of this effort, we find that the great bulk of life insurance is being paid in lump sums, and frequently to people unwise in their investment knowledge.

I was interested not so long ago in reading in one of our local dailies, that the insurance men in this country sold life insurance last year to an amount of $16,000,000,000. A little reflection told me that our national debt at the present time, after the expenses of the World War are completed, is but a little more than $18,000,000,000. We consider our national wealth as something in the neighborhood of $350,000,000,000 to $375,000,000,000, and it is astonishing to realize that if the life insurance men in this country continue to sell insurance at the same rate for the next generation or so that they did during the past two or three years, there will soon be an amount of insurance in force in this country equal to our entire national wealth.

Now there is very little co-relation between these figures, except when we consider that this money must be paid, that these policies must be cashed, and if things continue during the next generation in the same way that they have in the past, that there will be paid into the hands of individuals or to estates an amount of money equal to our entire national wealth, and it is at this point that we may properly enter into some discussion of the life insurance trust as a medium for the future conservation and proper investment of these funds, as well as a medium for the further sales of insurance and the greater protection of people who should have it.

Growing Understanding of Insurance

There are two things in the past that have done much to build life insurance in the public's esteem, and both of them took place under Federal auspices; the one was the imposition of the Federal estate tax law which required these taxes to be paid in cash in the coin of realm; and the other was the action of the Federal government at the time of the World War in practically insisting that every soldier or sailor who donned the uniform of his country should secure sufficient protection to care for those that he left behind. I bring that point in at this time just to acquaint you with the fact that there are a great number of people now, much more so proportionately than formerly, who understand insurance and who have purchased additional policies because through the auspices of the Federal government they were initiated into its desirability during the war.

Now, the purpose of the life insurance trust, if it has a purpose, is primarily to protect these people who are to be the recipients of these sums of money, which might be rashly invested or which might be paid to people who, because of financial experience, or environment or temperament, are not capable of doing what should be done with monies of that kind. To those insurance men who are here and who do not understand thoroughly just what the life insurance trust is, let me explain that, simply described, it is an agreement ordinarily executed in duplicate, reciting that the proceeds of certain policies will be paid to a trust company or to a trust department in a bank, will be collected by that trust department, and be invested for the benefit of certain individuals. Insofar it differs little in the optional settlement contract of the ordinary insurance company and insofar it has no further merit than has the contract of the ordinary insurance company.

Importance of Discretionary Power

There is, however, one thing pertaining to the life insurance trust agreement that makes it eminently acceptable and that makes it an additional argument for the life insurance man and the further sale of insurance, and makes it of great value to the trust department in the building of its business, and that is, that under the life insurance trust agreement, a trust company may be given the discretionary power in the distribution of the principal of the sum.

Now to you who are insurance men, let me explain that there is a tremendous field opened up to you for the further sale of insurance through the use of this discretionary power under a life insurance trust agreement, and because the trust men are interested in the further development of their trust business, it must be interesting to you, too, because with the further sale of insurance will come the greater development of your trust departments. I think sometimes a life insurance trust agreement of a small amount may be used in place of the ordinary education policy.

Nowadays life insurance men approach many of their prospects with an idea of selling them a $5,000 or $10,000 insurance policy to educate a boy or girl. The insurance company is required to pay stipulated sums from this policy from the years eighteen until twenty-two if the parent be dead and these stipulated sums come at definite times. The life insurance company can not tell whether the child is going to go to school or not, whether he will succeed in school or not or whether he will leave before the term is ended and the life insurance company can use no discretion whatsoever in the payment of these sums other than is set down in the policy.

Now the smart life insurance man who finds that that sort of an arrangement is not acceptable to his prospect can tell his client that the trust company that has handled that man's affairs will accept that $5,000 or $10,000 policy under a life insurance trust, and that under such an arrangement it may be recited that the trust officer will pay to that boy such sums both from the income and the principal of the funds as may, in the trust company's discretion, be proper for his maintenance, education and support.

What it Does for the Youngster

Now think what it does for the youngster. Those who have gone to universities understand that it costs more in the freshman year than it does in the sophomore; that the expenses of the senior are frequently more than those of the junior; and most of us will agree that in many cases it is unwise to pay definite amounts to children during vacation time. Think what a fine argument the life insurance man has for his prospect in telling that parent that those trust officers in a certain institution in whom he has confidence will have the supervision of that child's welfare and finally that the youngster himself is gaining through his connection with the trust department of the bank or the trust company, his first understanding of the value of a dollar.

There are many things that may be done under a simple life insurance trust, that will build business for a bank or will build business for an insurance man. Many men would purchase insurance if they knew they might arrange it so that they could give a present to their daughter at the time she was being wed. Others would like to have insurance preserved in such a way that a portion of the principal of their policies would be paid to a son when he was entering professional life or when, under the guidance of a trust company official, it might be desirable for him to make a certain investment in some business enterprise.

There are many things which may be done through the ramifications and enlargements of these insurance agreements, which will provide for the health and comfort of members of families and which, incidentally, will bring into the trust institutions people who are willing to tell their first confidences to their trust officers, thereby bringing perhaps further business later on.

A Strange Travesty

Those of us who are in banks and trust companies frequently lose sight of the fact that our prestige in the community is something that is quite valuable. The insurance man understands that. I sometimes think it is a rather pertinent fact that hardly any man lives and builds any sizeable estate, but who from the time he begins business until the time he dies, continuously finds in the building of that estate the imprint of his banker. It is a strange travesty on our American method of doing things that those same people will die and leave their affairs in the hands of people who are temperamentally unfit, usually, to administer such an estate. If we reflect, we find that a man hardly ever buys a home without going to his banker to determine the size of a mortgage that may be available for it, thereby gaining a free appraisal; that he seldom enters into business without inquiring through his bank the credit ability of his partners; that he rarely purchases a security without determination through his financial institution the underlying force and strength of either the issuing or the underwriting house. Many of these things he does out of force of habit or as a matter of fact, failing to realize at the time that perhaps he is securing this advice and that he is building his estate through it.

However, when these facts are brought forcibly to him, he understands them. Much life insurance could be sold by able and smart life insurance men who will present to such prospects the fact that the same institution which has year in and year out assisted in the development of a man's business and estate is in a proper position to take care of his dependents after he is gone.

You people who are in trust departments who are thinking of extending your business, must first remember that there is just as much available business to be secured from the departments that are already organized and are operating and have a steady clientele, as there is from without.

Possibilities of Business Insurance

We hear a good deal today about business insurance, and I would like to touch briefly upon the matter of business insurance, particularly as pertaining to partnerships and close corporations, in connection with life insurance trust agreements.

I read sometime ago that upwards of 25,000 partnerships were dissolved annually in this country. If we investigate just slightly we know that the average partnership is a loosely organized affair, and attorneys will tell you that. Very few partners have articles of partnership agreements drawn up. Very few of them understand that death terminates a partnership; that the partnership would be dissolved and that the expense in most estates of winding up a partnership devolves upon the surviving partner without any basis of remuneration.

Of course, smart life insurance men coming across such arrangements are selling life insurance to partnerships with a view of paying out the interest of deceased partners through the proceeds of the insurance policies. But is there a more fitting party to be the estate holder in such an arrangement, to act as the escrow agent, as a matter of fact, to be the third party in such an arrangement, as one who will hold the proceeds of these policies, who will inventory the accounts of the partnership, who will find that the bills are paid and that the amount of insurance equals in a sense the value of the partnership, and will secure such sufficient guarantees either above or below that amount, as will satisfy the family of the partner who is dead?

The Close Corporation

Let us turn for a minute to the close corporation which exists primarily in the smaller cities. The close corporation is generally the outgrowth of one man's genius. It is quite frequently a specialty organization. It is a company which has grown up around one key man; someone who had a fine idea and worked through over a period of years and came to a point where either because of his desire for tax economy or because he wished to reward certain loyal associates, decided to incorporate and in the usual run of cases he accepts 50 per cent of the

stock, maybe 60 per cent for himself, gives his wife an additional 20 per cent and the balance is distributed among those who have been faithful to him.

Where there is no life insurance, when that man dies that stock becomes the property of his heirs of course. These heirs may be scattered from Maine to California. They come in then as the majority stockholders in the corporation and run its affairs, knowing generally very little about the business itself.

Now smart life insurance men, of course, are selling life insurance placed in such a way that the stock of that key man will be retired or distributed to the remaining stockholders or will be sold on the open market, if there is a market. Is there anyone better, gentlemen, than the trust company to step in to act as an arbitration board or secure an arbitration board to determine the value of that stock, to hold the stock up to the time of the man's death probably, properly to satisfy and pay out the heirs of the individual and secure the future of the corporation by obtaining someone to come in and take over the interests of the concern? And many insurance men are selling additional amounts of life insurance to such corporations, using the surplus through a life insurance trust agreement with a local financial institution who has carried them perhaps all through their years and understands the business, using the surplus, I say, as a bait to attract some outstanding individual in that same business, to that community, in order that that business might go on. And it is a particularly emphatic thing for us to consider, because the close corporation in so many of the smaller communities is the one thing that forces the life blood of that community throughout its entire system. So many communities are dependent upon the sustenance and existence of one institution alone and in too many of our hamlets we find the blackened ruins of factories that have tumbled into dissolution because the key man has gone and because the financial institution in the community that probably controlled its affairs was not in a position to keep the business going.

A Tremendous Field

There is a tremendous field in this business for the trust companies in the future, and it must appeal to you insurance men that there are many things that you can do through the life insurance trust, not competitively with the policies of your own company, but as supplemental data, supplemental arguments that can be used where your own programs will not fit. It must appeal to the trust men because the business is clean. There is no type of trust business that comes into our doors that is more pure than the money that comes in cash from the insurance man.

We must remember that even the ordinary estate has considerable rubbish, a great amount of stuff that the trust officer has to wade through.

The life insurance trust that comes in has nothing worthless about it; and one point further, when a man comes to consider his trust institution in a light where he may sit down with his trust officer and confidentially tell him his own secret desires and ambitions and the things that he wishes to have done with the avails of his insurance policies, then such a one has come to a point in his contact with that institution where other business may be secured from him.

The life insurance trust from the angle of the life insurance man and from the angle of the trust officer, is something that is eminently desirable and we have come to a point in its further development where both fields understand that in insuring lives and promoting a dogma of institutional service, we have a path to tread that may be done not competitively, but in the fullest sense of the word, cooperatively.

Discussion

CHAIRMAN DIXON: I want to express my own appreciation of Mr. Reynolds' very interesting talk, and the response that you received from this conference, Mr. Reynolds, gives the assurance of the appreciation they felt.

I know from our own experience in just the last few years, that the closer association between the life underwriter and the trust man is bound to rebound very greatly to the benefit of both institutions and I agree with Mr. Reynolds very thoroughly that the insurance trust is a production factor of real value to the life underwriter, and the time that he spends in learning and understanding the trust itself will be fully repaid. My experience has been that many a man who denies that he is interested in life insurance will not claim that he isn't interested in his estate and the discussion of his estate. Its building and its conservation makes one of the most favorable modes of approach for the life underwriter.

Mr. Reynolds, do you always retain the policies in your insurance trust?

MR. REYNOLDS: We do, unless we find that the customer is inclined to be argumentative about it. We prefer to have them and we also, in most cases, secure the premium receipts so that we may determine that there will be no policies that are dead in the file. We would not be carrying a trust on our books that has worthless securities.

CHAIRMAN DIXON: Supposing he wants to make loans, he has to keep them, does he not?

MR. REYNOLDS: It is part of our agreement that he is privileged to loan against the policies. Some of the companies do not require that more than an affidavit be made to the effect that the policy is there.

The Need for Standard Fees for Trust Service

By JOHN C. MECHEM
Vice-President
First Trust and Savings Bank, Chicago, Ill.

There is a fundamental difference between the kind of business contained in the trust department and the kind of business transacted in all other departments of the Bank.

It is essential therefore, to educate the heads of other departments, as well as customers, to the true nature of trust services, so that neither will expect to get the time of the trust department for nothing.

A fixed fee, with due allowance for unusual services, is the solution and is a protection against the suggestions of our fellow officers, importunities of our customers and the weaknesses of our characters.

For trust companies in the same locality to compete on a fee basis, is "community suicide." Local corporate fiduciary associations are very helpful in the standardization of fees and in enlisting the cooperation of trust companies and banks in adhering to them. The formation of such organizations cannot be too strongly urged and the time is ripe for more of them in the South.

THE subject upon which I have been asked to speak to you today may seem at first blush to be a trite one—perhaps hardly worth discussing. One might very easily dismiss it with the statement, "Of course the price of trust service should be fixed just as the price of any other service or commodity should be fixed. That goes without saying." I wish indeed that the matter were so simple. But it isn't.

We start, do we not, with the fundamental proposition that since our institution as a whole should be a profit making venture, each integral part of it must, within a reasonable time, yield a money profit commensurate not only with the size of the bank's investment therein, but with the nature of the business done. That goes for the trust department as well as for any other department. True, it probably cannot make as much as other departments because it uses none (or substantially none) of the bank's capital but if it is to be a self-respecting member of the departmental family, it must earn a profit consistent with its opportunity and with the character of its business.

What Kind of Fee?

In order to earn such a profit, it must do a reasonable volume of business and receive for it a price sufficiently in excess of the cost of doing the business to yield a reasonable margin of profit. If the department is well operated and the institution reasonably well located, the volume of business will come. The cost of doing the business can be determined with great accuracy and in any degree of detail that you wish, although I might mention in passing that the one thing about which the average bank probably has the least knowledge is the cost—the actual cost—of operating its trust department. You will recall that the survey made by the Committee on Costs and Charges of the Trust Company Division, not more than two years ago, revealed the fact that of the more than two thousand banks which answered the questionnaire, only ninety-three had even made a study of the subject.

Assume, though, that the cost has been determined. We are then to fix the fee, a fee sufficient not only to provide such cost but a margin of profit as well. Is it to be a flexible fee, a fee to be determined and applied by the trust officer in his discretion, a fee which leaves room for exercise of judgment—of discrimination—a fee which recognizes that some customers are more valuable than others, that some are better able to pay than others, that some customers must be browbeaten, some flattered, some cajoled, that some customers dearly love a bargain, real or apparent, is it to be that kind of a fee, or is it to be a fixed and definite and standard fee applicable alike to all customers and bearing equally on all similar situations? As stated, it doesn't sound like an easy question.

With its various ramifications it is one of the most important and one of the most fundamental problems in the entire operation of a trust department. Upon its firm and successful solution depends to a very large degree the morale, the reputation and the financial success of the department.

A real belief in the necessity of fixed fees can only come as the result of, and is in fact the inevitable outgrowth of, a fundamentally sound and proper attitude towards the trust business as a whole, from a belief in its dignity, in its usefulness to the community, in its value to the bank, and in its

right to earn an honest profit, and that belief must exist not as a superficial impression, but as an honest conviction, not only in the minds and hearts of those who are operating the department but in the inner consciousness of those who are in control of the institution of which the trust department is a part.

A Fundamental Difference

Let us look at the matter of fees first of all as a question of internal operation, as a matter entirely within the four walls of our institution. We all know only too well how often pressure is brought to bear from within the bank itself to render a trust service for a good customer of some other department of the institution at a price which will not yield the trust department an honest profit. How often in the experience of all of us has an officer of, let us say, the commercial department brought a customer to our desk and introduced him to us with some such statement as this: Mr. Mechem, this is Mr. Smith. Mr. Smith has been a valued customer of the bank for many years and carries an excellent account with us. He has a simple matter which he would like to have you take care of for him. It ought not to take much time or be very much trouble and I shouldn't think you would have to charge him very much for it, will you?"

The same officer would not think of taking the same customer to the savings department and asking the officer in charge of that department to pay him more than the regular rate of interest; he would not think of taking him to the bond department and asking the head of that department to sell him a bond at less than the market price; he would not take him to the real estate loan department and ask that department to make him a loan on his home at less than the going rate of interest; and yet with no realization of any impropriety, he has not the slightest hesitation in asking the trust department to do a service for the customer at less than cost.

This is no reflection upon either the intelligence of the officer in question, or of his loyalty to the bank, or of his desire to see the bank prosper. It grows out of a fundamental difference between the kind of business done in the trust department and the kind of business done in all other departments of the bank. In the commercial department, from which by our illustration the particular officer came, its profit is made on the money which it loans, and the time of the officer spent in arranging the loan is only regarded, if at all, as part of the general overhead, and the amount of such time spent is totally disregarded in fixing the rate of interest. In the savings department the profit originates from the reloaning, or otherwise investing, of the money received on deposit, and the time of the officer involved in opening the account is not considered in fixing the rate. In the bond department, the profit from the transaction arises from the difference between the price at which the bank sells the security and the price which it paid for it plus, in all probability, a profit on the carry. The time of the officer involved in making the sale, be it long or short, makes no difference in the price. In the real estate loan department, the profit arises from the difference between what the bank bought the mortgage for and the price at which it sells it, plus the commission on making the loan, plus a profit on the carry. Again the time of the officer involved in the transaction with the purchaser of the mortgage is not considered in the price of the security.

Trust Department Sells Time

In all of these instances the profit to the bank arises from the borrowing and loaning of money, from the purchase and a sale of a security, and the officers in charge have easily and naturally over a period of years come to disregard and to consider as incidental to their business the time involved in putting through an individual transaction. Therefore, it is natural enough for them when they come to the trust department which has no money to borrow or to loan, no security to buy or to sell, to feel instinctively that the time spent upon the transaction is not a thing for which a charge is to be made; to fail to realize that while money and credit and the evidences thereof are the commodity in which the other departments are dealing, *time* is the commodity in which the trust department is dealing and that the bank is just as much entitled to a profit on the purchase and sale of its trust department's time as it is on the purchase and sale of its bond department's securities or the loaning of its own or its depositor's money.

How essential it becomes, therefore, that the officers of other departments of the institution become educated to the true nature of trust service, to the fact that all that the trust department has to sell is men's time and that, at least in the case of that department as disinguished from the others, time should be compensated for as fully and as justly as should the commodities in which the other departments of the bank deal. I cannot endorse too heartily or applaud too generously what Mr. Maddox said this morning about the duty of the bank executive toward his trust department. When more executives realize this responsibility, the lot of the trust department officer will be immensely easier.

And what an aid, what an essential aid, it is to the trust department officer to be able to say, "We have a fixed price for this service, a price from which we cannot depart for one customer at the expense of another. We will quote you our very best price, Mr. Smith, but it is the same for all our customers."

It is within the range of possibility that the time will come when all officers of all other departments of all banks will realize and appreciate what trust service is and what it costs and will be eager for it to receive a living wage—but until that millenium arrives the trust department can only arm itself against its best friends, if I may so put it, by having a fixed and definite, a standard fee.

The Customer's Attitude

If, as I have suggested, the very officers of other departments of the bank are going to be inclined to

ask the trust department to render service for a good customer at less than cost, how much more likely is that customer himself to take the same point of view. Trained, unfortunately, as he is, to expect from his bank every kind of service free, to expect to get for nothing everything except the money which he actually borrows or the security which he actually purchases, how more than ready is he also to feel that the service of the trust department, which involves nothing but expenditure of time, should come to him free, as does, for example, the advice of the loaning officer and the service of the credit department. Or even if his conscience hurts him a little in trying to get the service for nothing, how ready he is to try to bargain for a rate, as he might bargain for a rate on a commercial loan, not realizing that the factors which influence the naming of the rate do not prevail in the fixing of the fee.

And in the long run, how much better satisfied is the customer if he knows the fee is fixed. If he gives the matter any thought, how quickly must he realize that some other customer, who perhaps carries a larger account in the commercial department or buys more bonds from the bond department, may have traded with the trust department for even a lower fee than he himself obtained. How quickly must he realize that if he can get a certain fee, some one else may get a better one, and how naturally does he become dissatisfied with his own accomplishment from the fear that some one has accomplished more. How much better satisfied he will be in the end and with how much greater respect will he regard not only the service which he receives, but the officer who performs it and the institution which offers it if he knows or comes to know that the service of the trust department is not a thing which can be bargained for, but a service for which a fixed and reasonable charge must be paid.

Advantages of Fixed Fee

And with what better tool can we equip the officer who must make his department profitable than a fixed and definitely determined fee. Without such a fee how easy it is for us to be convinced in a particular case that there are circumstances which justify a lower rate. How easy it is for us to be swayed by sentiment, by friendships, by sympathy into quoting a charge which is less than the service is really worth. I do not mean, of course, that we should harden our hearts to a deserving situation. I do mean that if the department is to be conducted on a commercially successful basis, the fee must be measured by the service rendered rather than by the ability to pay. We are all only human and weak at times and there are always circumstances which seem to justify a reduction. With a fixed fee, it can't be done.

With a fixed fee, we are proof against the suggestions of our fellow officers, the importunities of our customers and the weaknesses of our own characters.

And how can we expect to prosper, how can we expect to earn an honest return on our efforts, if our fee, which includes to begin with only a modest margin of profit, is cut here and cut there, is shaded to please this customer and reduced to meet this situation. It simply can't be done.

It is almost needless to call attention to the necessity of a fixed fee as far as competition between trust companies is concerned. We know only too well that for trust companies in the same locality to compete for business on a fee basis is community suicide. We must have a standard fee for similar services and must be confident and secure in the belief that we are competing only as we should compete on the basis of reputation enjoyed and service rendered. We are all familiar with the prospective customer who comes into us with a statement that a rival trust company has quoted a certain price for a particular service and who either offers us the business if we meet the rate or asks us if we care to bid against the figure. We have no means of knowing whether what he says is true and for us to attempt to meet or to bid against such rate is, to put it mildly, the height of folly. No business could be profitably secured by any one if such a condition were to exist.

For most of us such competition is a thing of the past. For this we are under a great debt of gratitude to the various fiduciary associations which have sprung up and are springing up all over the country.

Corporate Fiduciary Associations

I cannot commend too highly the efforts that have already been made in this section of the country to form corporate fiduciary associations, nor can I urge too strongly the desirability of creating such associations where efforts to that end have not yet been inaugurated. I know that in Birmingham such an association is under consideration; that in Atlanta and in New Orleans the Trust Department Committees of the Clearing House Associations are functioning in this capacity, and that right here in Chattanooga such an association is under consideration. As far as I have any record, however, there are no such organizations in Florida, Kentucky, Mississippi, or the Carolinas.

The formation of such organizations, of course, involves labor. The agreement upon a fee suitable to all members of the association is an enormous task but I know the time is ripe in this section for more organizations of this kind. And I predict with confidence that those of you who give your efforts to such projects will find that your time has never been better employed, nor your efforts crowned with greater rewards.

Bear in mind that while the earlier associations were the outgrowth of competition between rival trust companies in large cities, where all trust companies were bidding for business under the same conditions, there is no reason why an agreement as to fees should be restricted to the corporate limits of any one city, provided that the various members agreeing to the rate are so geographically located as to be in substantial competition and so

circumstanced that they are operating on a fair competitive basis.

The Standard Fee Explained

What specifically do we mean by a standard fee? Do we mean, first, that we can establish a rate which will meet all situations either presently existing or to arise in the future, and secondly, do we mean that we can today establish a rate which will be effective at some indefinite date in the future?

Clearly the first is impossible. The trust business is so varied, the diversity of circumstances is so wide, that there will always and inevitably be situations which even the most carefully planned schedule cannot cover—escrows, special deposits, unusual forms of collateral, new situation in reorganizations, new forms of service. The utmost that can be done is to establish a schedule which covers the standard forms of service leaving to the trust companies the right to use their discretion in the unusual cases, but continually, with the benefit of experience, enlarging the schedules to cover more and more aspects of the service so as to reduce to a minimum the services for which standard fees are not provided; to reduce to the lowest possible number the services for which fees are discretionary. A discretionary fee in actual practice means a fee below the cost of doing business.

Nor, obviously, can any schedule of fees fix a definite price for service to be performed in the future when the nature and extent of the service cannot now be known. For such a service, the schedule can only provide that the trust company shall have the right to charge an additional fee for unusual services to be rendered in the future, such fee to be based upon the time and responsibility involved.

Unusual Services

Assume, for example, that the prospective maker of a will, who is wise enough to discuss his situation with a trust company, is a man of substantial property and in active business. In all probability his estate will consist of some cash, some listed stocks and bonds, perhaps a mortgage or two, and some real estate, but in addition, the substantial portion of his wealth may and very likely will consist of his interest in the business in which he is primarily engaged. He may be conducting it as an individual or it may in the form of a partnership or a corporation.

It is perfectly possible for us to say that for acting as executor we will make a certain charge for our normal services such as collecting claims, paying debts, taking care of taxes, etc. It is perfectly possible for us to say that for acting as trustee of the listed stocks and bonds, the real estate mortgages—for the normal services incident to the position—for investing and reinvesting the principal and distributing the income, we will make a certain definite charge and it is perfectly possible for us to say that our standard charges for the management and sale of real estate are such and such, but how by any chance is it possible for us to say what our charges will be in connection with his interest in his business, his corporation, or his partnership. How is it possible for us to forsee what the situation is going to be at the time of his death and consequently how is it possible for us to say what duties it will be necessary for us to perform. Obviously, we can do neither of these and obviously, we can, therefore, quote no fee.

The only thing that we can do is to say to him that we will have to meet the situation when it arrives and take such steps and perform such services as the then contingencies require and that for such services we must and do reserve the right to make a then charge based upon the then services which the then circumstances require. And if our prospective customer demurs at entering into such an arrangement, we can only suggest in addition that if he has confidence enough in our institution to name us in these important capacities, he must also have confidence enough in our institution to trust us to make a reasonable charge.

Such an arrangement can well cover such items as extensive litigation, great and unusual holdings of real estate requiring special development, large amounts of unusual and unmarketable personality, unusually large blocks of stock requiring refinancing, reorganization or unusual marketing methods, liquidation of a business, winding up a co-partnership, or what is more common, managing a controlling interest in a corporation.

And so we see that our schedule, no matter how scientifically prepared, and no matter how frequently and carefully revised, must leave the charge for unusual services to the discretion of the company and must specifically provide that unusual services to be performed in the future must receive extra compensation depending on the time, effort and responsibility involved.

And in this connection, let me digress for a moment, if I may, to dwell upon the importance to the institution of these charges for extra services. You will find, I am sure, as we have found, that a very substantial proportion of our time and particularly the time of the senior officers of the department is spent on this class of service, on service not included in the ordinary scope of our duty, services the necessity for which was not and could not have been foreseen at the time our fee arrangement was made and services of an importance and a complexity far in excess of the standard and anticipating ones. If the trust department is to get a fair measure of return for its efforts it must be forever on the alert to make these charges. I think indeed that it is safe to go farther and to say that the question of whether the department secures a modest return or an ample return for its work will depend very largely on the extent to which it makes such charges for unusual services. I realize very well the difficulties involved. I know from many experiences how hard it is to make the beneficiaries see that there is anything unusual in their estate, that there is anything in their situation so out of the ordinary as to justify the imposition of the additional charge. I know,

however, that the results of conscientious effort along this line are astounding.

Future Contingencies

This brings us to the second question and I believe it to be a question which many of us are not facing as frankly, as bravely, as we might—the question whether a fixed fee means a fee which is fixed today for a service to be performed in the future. Theoretically, it does not, but practically I am afraid that it does. Suppose, for example, that the prospective maker of a will who consults a trust company is a prosperous manufacturer in the prime of life with a normal expectancy of, let us say, twenty years. After going over his affairs with you and after learning, probably for the first time, the difference between an executor and a trustee and after expressing surprise at the large size of the executor's fee, and even after perhaps admitting surprise at the modest amount of the trustee's fee, he will in all probability ask you to write him a letter stating the fees for which you will perform these functions in the event of his death. It will never occur to him that there is anything unusual or improper in this request. But suppose the situation were reversed, suppose we asked him to quote a charge on his product to be delivered at any time within twenty years from today. He would think we had taken leave of our senses, and yet are not the two situations analogous? How do we know what rent, or light, or heat, or help will cost, five, or ten, or fifteen, or twenty years from now? We don't. How then can we quote a rate based on those same factors and yet to take effect at some unknown period in the future? We can't in theory and yet, in fact we do. It's a problem we are all struggling with and meeting as best we can. Many of the older trust companies are suffering today, and suffering acutely, from handling trusts on fees quoted twenty years ago—fees far below the present standard. And yet they are doing the same thing right over again, quoting fees today for services which may not be rendered for twenty years.

And so I think, it's fair to say that while it shouldn't, a standard fee probably means a fee quoted today for services to be performed on a far distant tomorrow.

The Published Fee

What else does a standard fee mean? Does it mean a published fee? It should.

It is not entirely sufficient that a fee should be fixed. In addition, it should be publicly known. There has been great reticence on the part of trust companies in the past to giving publicity to their fees. That was well enough when fees were on a competitive basis. It was natural enough for trust company "A" to quote a fee in strict confidence when they were not sure but that trust company "B" was quoting a smaller fee for the same service; and it was natural enough for a trust company to quote customer "X" a fee in the very strictest confidence when it was quoting customer "Y" a smaller fee for the same service. But with all trust companies in a given locality quoting all customers the same fee for the same service there seems to be no longer any reason for this secretiveness. I am sure we will all be better off when the public knows and understands our fees, appreciates their reasonableness and by the very fact of the publicity has faith in their uniformity. So we, in Chicago, are not only publishing our entire schedule of fees in book form, distributing to our inquiring customers pamphlets setting forth fees for particular services, but some trust companies are publishing their fees in their newspaper advertising.

It has been said that this publicity is going to make it difficult to change the fees when subsequent circumstances require it. I think this argument is without force. In the event of a subsequent change in fee, what can be more businesslike than to say to a customer very frankly, "Yes, that used to be our charge but the increasing cost of doing business has obliged us to raise it." This is done with every other commodity and every other kind of service. Why not with ours?

I am not going to make any efforts to discuss with you the particular fees in vogue in the various localities represented at this Conference, although I have had the privilege of examining many of them. I cannot be sufficiently familiar with the local situations to pass intelligently upon them.

Let me urge in conclusion that you set a fee which is fair and adequate in view of your local costs; that those of you who are in substantial geographical competition associate yourself to establish and maintain a common and standard fee; that you defend that fee, as you would your own good name, against all attacks—to the end that collectively you shall increase the already high standing of the trust companies of the south and that individually you may reap the financial rewards to which you are so justly entitled.

Discussion

CHAIRMAN DIXON: Gentlemen, that was a splendid contribution to this conference. I want to thank Mr. Mechem on behalf of the conference for his address.

Are there any questions with reference to Mr. Mechem's address? It is very important, and I think we would all benefit by having it dwelt on.

Percentage of Cost

W. F. MURRAH (Asst. Cashier, Fidelity Bank & Trust Company, Memphis, Tenn.): In order to fix the charge for trust service, it is necessary to know the cost of it and I would like to ask Mr. Mechem what has been the average cost or percentage of

cost arrived at in such trust associations as he has been associated with.

MR. MECHEM: Mr. Chairman, that is the most difficult question that anybody could ask. It is a question that we are struggling with all the time. The difficulty with answering it is the fact that trust companies throughout the United States are figuring their costs in so many different ways. There have been efforts, as you know, to establish a fixed method of figuring trust department costs. All of us who have discussed with our competitors in our own cities this all important question of costs, know that almost no two institutions are figuring costs on the same basis. One trust department is paying so much rent per square foot; another trust department is being charged no rent; another trust department is being charged overhead on the percentage that the total expense of the trust department bears to the total expense of the bank. I speak feelingly about that because that is the basis on which we are charged. In my opinion it is theoretical and a practically unjust basis,

Some of our institutions are being charged overhead in a purely arbitrary way, so that as far as I know, and we have tried and tried, there is no way of taking our costs and setting them up against the costs of somebody else who is competing with the same community that we are, and determining whether our costs are too high or too low.

The net profits of trust departments that I know anything about run from 25 to 60 per cent on their gross receipts. That is not a very helpful answer and I believe that the trust departments that are fully charged not only with their direct expense but with the just proportion of the overhead expense, are more likely to run 30 to 50 per cent.

E. M. SHELLEY (Vice-President, Morristown Trust Company, Morristown, Tenn.): Mr. Mechem, must not the standard fees you speak about, for executor, administrator and guardianship, be in conformity with what the state law sets out?

MR. MECHEM: In Illinois, sir, our state statute provides that executor's fees shall not exceed 6 per cent. Our schedule doesn't run as high as 6 per cent even on the smaller estates, so that there is no difficulty of our being in complication with our state law. The executor's fees have to be approved by the probate court. An Illinois testamentary trustee is not subject to, or an officer of, the probate court; therefore, our trustees are not subject to the approval of the probate court and we may make any reasonable agreement that we like with the creator of the trust as to our fees, or in the absence of such an agreement, we may collect a reasonable fee. If the trust company charges an exorbitant fee the beneficiary always has the opportunity, of course, to go into the court—not the probate court, but the circuit court—and contest it.

Custodianship Fees

CHAIRMAN DIXON: Mr. Mechem, I think the delegates would like to hear what the fees for safe-keeping of securities are in your section of the country.

MR. MECHEM: First of all, they are not high enough in our section and are not high enough, I think, anywhere, and yet with us they seem to be fixed. I don't believe we can agree among ourselves and get them raised because they seem to be all that the traffic will bear and yet, as you know, it is a very difficult thing to make any money out of a custodianship business.

We have all got to do what many of the larger trust companies, particularly in New York and eastern cities, are doing, taking their large active accounts and listing them, going over them with their customers, and getting the customers voluntarily to agree in each particular case to a larger fee.

Our annual fees are, for example, for the first $1,000,000 or fractional part, $1.00 a thousand on bonds; 50 cents a thousand on stocks, or five cents a share on no par stock; $2.00 a thousand on the first $10,000 of each individual mortgage and $1.00 a thousand on the excess.

On the second million, on bonds, $.75 a thousand; stock, $.37½ a thousand or $.03¾ per share of no par stock; and on mortgages the same as on the first million.

The third million and upwards, $.50 a thousand on bonds; $.25 a thousand on stocks with a par value, or $.02½ a share on no par stock.

Those have become standard fees and I think it is going to be impossible for us to raise them. Yet, they are not enough.

PRESIDENT MCLUCAS: I think the millions seem rather large to some of us who don't have million dollar accounts. The fact, Mr. Mechem, that in Chicago you have agreed on a fee for the safekeeping of customers' securities seems to me to be the principle that is in this whole proposition of getting together in a local accord and agreeing on fees. It is only a little while ago that no fee was charged in Chicago for this service, yet an agreement has been reached which is universal. We would be interested to hear how this change was brought about.

MR. MECHEM: The situation first was this—you are probably against it, many of you—our fees for trust department service have been fixed, in Chicago, for some little time, but we found that in our trust department, we were making charges for this service, whereas in our commercial department they were holding their customers' securities for nothing, largely the securities of their bank customers—they are country bank securities—and they were doing the same thing for their large commercial customers. We found in our bond department that people were buying bonds and saying, "Let me leave these here for a little while," and they were left year after year after year, with the result that in two places in our institution they were doing for nothing, almost exactly the same thing that we in the trust department were making a charge for. The only difference, in our particular case, was that the form of the receipt was a little different and the technical responsibility, I think, was somewhat different.

In other words, in the commercial department of

the First National Bank they would give a man the receipt in which they guaranteed to give the securities the same care and attention that the bank gives its own securities. In our trust department we were using a standard form of receipt which was broader than that, and when required, we were agreeing to assume all responsibility except the act of God and the public enemy, and the degree of theoretical responsibility was different.

Clearing House Rule

That situation had been going on in Chicago, as long as we can remember. As we say in the Law, it has been talked about and talked about and talked about. The only way we were able to get anything done was to do it through the clearing house. We got the clearing house committee, some time ago, to pass a rule that no members, regular or associate, of the clearing house, should in any department of a bank hold securities for any customer for longer than a short period of time, or when they are entered for collection, without making a charge. Now those charges are substantially the same as our trust department charges. They are not quite the same because the commercial banks insisted that when they got into the large amounts they might be able to use their discretion. I am sorry I haven't a copy of that clearing house rule here. My recollection is that after the customer pays $1500, a further charge is discretionary. That is my best recollection. So we are no longer in competition with other departments of our own institution. It has been a most marvelous thing for us in the trust departments and it has been a very substantial item to the commercial department.

S. E. THOMAS (Vice-President, American-Traders National Bank, Birmingham, Ala.): Is any provision made where a customer leaves securities with the bank in the commercial department for only perhaps two or three weeks?

MR. MECHEM: Our clearing house rule provides that it is not imperative to make any charge if securities are left for a very short time. My recollection is that it is ninety days, where they are entered for collection. This applies to the bond department as well. You may buy a bond and leave it for two or three weeks. They don't have to make a charge for it.

J. G. O'BRIEN (Trust Officer, Commercial National Bank, Shreveport, La.): Mr. Mechem, do Chicago banks allow interest to the trust department on balances maintained by the commercial department? I would like to know whether that is a general practice or if it is peculiar to the banks that you have been in contact with.

CHAIRMAN DIXON: Where the trust funds are on deposit in the commercial bank, does the commercial bank allow the interest on those deposits?

MR. MECHEM: That varies, sir, with the particular case. For example, supposing that a Chicago bank is made trustee under a corporate mortgage which involves a building program on a construction loan so that the money necessary to complete the building is put on deposit with the trustee. It is customary in those cases for the company to make an arrangement with the trustee that the trustee shall pay the company interest on that money, or that the trustee shall invest those funds in certain designated securities, which mature prior to the time when the money is going to be required. For example, you are familiar with trust deeds which provide that the trustee, with the approval of the company, may invest those funds in U. S. Treasury certificates of a maturity within the time when the money is going to be required. Or another example: You can sit down with a fellow and figure it, supposing it is a $5,000,000 building, $5,000,000 is deposited with the trustee. With the builder and architect, I can figure out a schedule showing about when that money is going to be required. You can invest the money within those periods, so there is no possibility of depreciation in market value, so that you have a security that is going to mature before you need the money, or, as I say, you can make a specific arrangement with the company that the money shall remain on deposit and they shall receive interest on it.

We are authorized to do that under the statutes of Illinois. The trustee may bargain, in Illinois, for the rate of interest on money left in that way.

A. B. CULBERTSON: When there is an aggregate of uninvested funds,—numerous trusts of $200, $500, or $700, but not in such amount as to justify an investment, or not in such amount that you could obtain a satisfactory investment, what do you do in reference to allowing interest on those bonds?

MR. MECHEM: It all depends on the length of time that the money is going to be there. For example, we figured out last year that the average length of time that money lay uninvested was about four days. If money is going to be uninvested for any length of time, we put it into a certificate of deposit at three per cent, and the estate gets the benefit of it. If the money is going to lie there perhaps two or three days or a week, it simply goes into the balance of the trust department on the bank's books and the trust department gets the interest, so, as do all other trust companies, we carry a very large account all the time with the banking department.

Fees for Testamentary Trusteeships

TAYLOR DURHAM (Vice-President, Chattanooga Savings Bank & Trust Company, Chattanooga, Tenn.): I would like to ask Mr. Mechem if his testamentary fees are based on the amount involved or the income of the estate.

MR. MECHEM: Our schedule of fees includes both methods, as a matter of fact, and it is our practice in Chicago in trustee's fees to insist, insofar as we can, on the fee being based upon the principal, because we feel that that is a fair way to base the fees. The things that cause us trouble as trustee are not the things that are producing regular income, but the things that are producing irregular or no income, so that we feel it is fairer to us to base our

fee upon the principal. Our testamentary trustee fee is worked out on a sliding scale. On the first $50,000 of principal we make a charge of one-half of one per cent a year on both mortgages and stocks and bonds. From $50,000 up to $1,000,000, we charge one-quarter of one per cent a year on stocks and bonds, and keep the same charge of one-half of one per cent on that proportion of the estate that is in real estate mortgages.

On the next $2,000,000, we charge nine-fortieths of one per cent on the stocks and bonds and again one-half of one per cent on the real estate mortgages.

For acting as executor, our fee is based entirely on the size of the gross estate. Ordinarily, we take the Federal estate tax return figures, exclusive of insurance.

If our customer insists, we quote charges on income, and our charges are as follows: On the first $2500 of income, six per cent whether it be income from stocks or bonds or mortgages; on the next $97,500 of income, three per cent on the income from stocks and bonds and six per cent on the income from mortgages, but in addition we make an investment charge of one per cent and a closing charge of one per cent, but those charges do not prevail when we quote our fees on principal.

A. B. CULBERTSON: Do you make that charge of one per cent regardless of the size of the income?

MR. MECHEM: Yes.

Life Insurance Trusts

W. C. BOWMAN: Will you read the schedule, please, for insurance trusts?

MR. MECHEM: Our schedule of fees for insurance trusts is exactly the same as our schedule of fees for testamentary trusts and for voluntary trusts; that is, one-half of one per cent on the first $50,000, and from $50,000 to $1,000,000, one-quarter of one per cent on stocks and bonds, and one half of one per cent on real estate mortgages, with the provision that in a trust in excess of $150,000, we may eliminate the extra charge of one-quarter of one per cent on the first $50,000, and quote a straight one-quarter of one per cent on stocks and bonds, and one-half of one per cent on real estate mortgages.

We make no opening or initial charge on a life insurance trust. We do, however, make a charge for amendment or revocation. We make no charge, for example, when the policies are deposited. We make no charge for the custody of the policies. In the case of an amendment we make a nominal charge of $5.00 per insurance company involved. In the case of complete revocation and surrender of the policies we make a nominal charge of $25.00. Those charges are not adequate. They are simply put in there as some deterrent to thoughtless, hasty creation of life insurance trusts and revocation of them.

Mr. Reynolds has had more experience than I have had with life insurance trusts, and I think he will tell you that we don't know yet what the mortality of these life insurance trusts is going to be. We have lots of cases where a man creates a life insurance trust and in a little while wants to amend it and he later comes in again and amends it and finally revokes it entirely.

We make no charge for final distribution of principal.

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By FRED W. ELLSWORTH

Vice-President

Hibernia Bank & Trust Co., New Orleans, La.

As only about 2% of a bank's customers patronize the trust department, the number of potential prospects is extremely limited and it is necessary to reach them by direct contact rather than by widespread advertising.

An ideal workable advertising and selling program for the trust department would consist of: (1) A class in trust business for all the bank executives, (2) The careful preparation of a prospect list, (3) A weekly or bi-monthly newspaper advertisement, (4) A four-page leaflet sent to the prospect list at the same time the advertisement appears in the paper, (5) A master booklet describing in minute detail all the various facilities offered by the trust department, for use in answering inquiries, (6) Persistent follow-up of worth while prospects.

"The service the well equipped and thoroughly experienced trust department is ready to give," Mr. Ellsworth says, "is so comprehensive, so satisfying, so surprisingly simple and so unexpectedly invaluable and withal so ridiculously inexpensive, that if we can ever get the message properly into the hearts and minds of the general public, we shall be literally overwhelmed with those seeking the service."

IN considering effective advertising, and any other new-business efforts for obtaining trust business, one must remember that the audience of potential prospects is exceedingly limited in comparison with the actual and prospective clientele of the other departments of the bank.

For example, representative banks in a half-dozen widely separated cities recently reported to me figures covering the number of customers in their various departments, and the average for all these banks indicates that out of every 1,000 customers, 100 patronize the commercial department, 670 the savings department, 60 the safe deposit department, 150 the bond department, and only 20 the trust department. Thus, in arranging plans for building trust business, obviously the same wide-spread methods that are usually employed in going after commercial accounts, or savings accounts, not only are not necessary, but are really foolishly extravagant.

If but two per cent of all bank prospects are possible customers of the trust department, the logical and economical means of reaching them is by the use of the rifle rather than by the shotgun. In other words, direct contact, it seems to me, is preferable to general publicity, although the latter undoubtedly has its place. Direct contact of course would mean the use of personal letters, direct-by-mail circulars and booklets, and intensive and most judicious personal solicitation. Many of our successful trust companies use continuous newspaper advertising, which unquestionably produces results, but when one contemplates the exceedingly limited field, the amount of waste circulation becomes obvious.

Use Plain English

Now just a word about the copy that appears in much of our trust advertising. Isn't it possible that some of it instead of attracting customers actually scares them away? The technical terms that we nonchalantly fire at them are little short of criminal. "Fiduciary," for example. Probably not one person in five hundred has the slightest notion as to what it means, and I have actually known employees in trust departments who didn't know how to pronounce it. "Executorship," "nuncupative," "administrator," "testator," "holographic," "intestate," "tutor," "committee," "custodian," "textatrix," "codicil," "testamentary"—all of these are perfectly legitimate, and thoroughly familiar to the trained trust company man, but they are deep-dyed Greek to the man in the street whose business we are after.

What we've got to do as far as possible is to translate this high-hat verbiage into plain English, and talk to our audience in *their* language so that they can understand what we are driving at, otherwise they will continue to refrain from using our services, with a consequent loss to themselves and to us.

When Value of Service is Understood

Why, man alive, the service which the well-equipped and thoroughly experienced trust department is ready and anxious to give is so comprehensive, and so satisfying, and so surprisingly simple, and so unexpectedly invaluable, and so resourceful in the saving of time and worry and needless expense, and so conducive to peace of mind, and so in-

telligently and continuously helpful in assuming all the annoying details of one's personal affairs, and withal so ridiculously inexpensive, that if we can ever get the message properly into the hearts and minds of the general public, we shall be literally overwhelmed with those seeking the service and the paltry two per cent that now are enjoying our facilities will be multiplied to a respectable figure.

The most intimate and sacred and confidential relationship in the business world is that which exists between the trust officer and his customer. It is comparable only to that between the physician and his patient, or the lawyer and his client, or the clergyman and his parishioner. In order to get the maximum of service competently and intelligently administered, the customer naturally must give his banker "the truth, the whole truth, and nothing but the truth, so help me," just as do the patient and the client and the parishioner. And when he has done that, he can be sure that his financial affairs are going to be handled economically, efficiently, and with a wholesome precision that will make him wonder why he didn't place his affairs in the hands of a trust company years before.

A Workable Program

If I were asked to outline an ideal workable program of advertising and salesmanship for the trust department, such a program would look something like this:

1. A Class in Trust Business—Fiduciary banking is relatively new. It is the least known of any feature of banking business. If people are to know about it, it is our job to preach the gospel. It is our job to tell the people of this country, who should enjoy the advantages of trust business, just what it all means. But how many of the officers in the average bank, outside of the trust department, know anything about the trust business? Isn't it logical to have a study class in the average bank, supervised by the trust officer or assistant trust officer? Let the class be made up of all the executive officers of the bank, two, three, four, five, ten or twenty, whatever the number may be, and let that class meet, say, once a week for thirty minutes or forty-five minutes or an hour, and be taught the fundamentals of fiduciary banking, by the trust officer of the bank, and have just such a class as we are having here, questions being asked and answered. I don't mean by that that the officers of the bank should become trust officers. They couldn't do that, it is too highly specialized a business, but they can learn the fundamentals so that they can talk directly to their own particular friends.

It is a well known fact, of course, that the average man coming in to the bank prefers to do business with some friends rather than some stranger. If the man is seeking trust service in response to newspaper advertising or direct-by-mail circular, he wants to go to somebody he knows and can talk with intelligently. He comes in to one of these men who has been in this class and that man can tell him some of the details of whatever forms of service he wants. When it comes to the point of actually closing the prospect, then it is time, of course, and perhaps not until then, to go with him to the trust officer or the assistant trust officer and close the deal, because then come the details that the general officer of the bank is not thoroughly familiar with.

2. A Prospect List—The next step would be the very careful preparation of a thoroughly culled list of prospects, and that list can't be made over night. It is a matter of building over a period of months and it needs the cooperation of all the officers, all of the employees that have any contact with prospects and all the directors of the bank, so that when that list is finally approximately complete—it never is finally complete—it has very nearly all of the available information that can be obtained regarding the details of each person who is going to be a prospect on that list; about his income, his worth, the number of people in his family, his direct and indirect heirs, even his habits and the prospect of his living for a certain number of years. That list, of course, is used by the trust department or the new business department or whatever body in the bank is charged with the responsibility of going after that business.

3. A Weekly or Bi-monthly Advertisement—This should not be too long, but just long enough so that a person can see it at a glance, featuring some particular department of the trust work of the bank, and I should think that it should carry an invitation to the reader to send in for a booklet which would describe in detail the feature that is described briefly in the advertisement.

4. A Folder—Then at the same time this advertisement appears in the paper, there probably should be a little four-page folder, such, for instance, as are published by the Trust Company Division of the American Bankers Association and by various high grade concerns who have made a special study of this kind of work. Let those circulars go to the prospect list the same day that the advertisement appears in the paper, and let that circular be accompanied by a letter which will direct attention to the advertisement in the paper. I think that as a rule the curiosity of the average person is such that if he receives a letter calling attention to a certain advertisement in the paper, he is pretty apt to read that advertisement and especially if he should get it a day before, he will be looking for the advertisement in tomorrow's paper.

5. A Master Booklet—A booklet which will describe in minute detail, chapter by chapter, all of the various facilities offered by the trust department, to be furnished to those prospects who actually ask for additional information in

response to either newspaper or direct advertising.

6. Persistent Follow Up—When these replies come in, as they do, from the advertisements and from the mailing out of the direct-by-mail circulars, those names are gone over very carefully by a special committee, perhaps by the trust department of the bank, or by the new business committee, and those names are then assigned to those officers in the bank, or those directors of the bank,—and, incidentally, we don't work our directors anywhere nearly so hard as we should throughout the country. I think ours work a little harder than the average and sometimes they resent it. Nevertheless we work them.

Those names should be assigned to someone in the bank organization who is the logical contact with that prospect and that person should follow that prospect up and report back to the new business department at intervals and if he doesn't report back to the new business department, he should be reminded of the fact so that there should be no possibility of his forgetting his obligations to go out and bring home the bacon. He should go after the prospect until he satisfies himself or the bank that it is a dry hole, or until the prospect comes in.

Keeping Everlastingly at It

Let me give you one illustration of one prospect, and I think I am not violating any confidence because we are given permission to use the information in our advertising. One of our trust officers was camping on the trail of A. B. for months to get her to make her will and appoint our bank her executor. She is a delightful little lady and she kept putting him off, as is the custom of the average person approached on this subject. She finally wrote him a very sweet letter and told him to please not bother her with any more of the delightful letters he wrote because "My mail is very, very heavy and I don't have time to read them. One of these fine days I shall come in and make arrangements to have my will made and to appoint the bank executor. You can consider that you have the business." And in the course of two weeks to our amazement she did come in and the matter was closed.

Now I cite that instance to impress upon you the fact, which may not be necessary, that you have to keep after a prospect for months, and perhaps years, before you finally land him.

Let me cite one other instance which is not connected with the trust department but which illustrates the point, of a corporation whose account we were after for seven years and which we went after from every possible angle. All the banks in New Orleans were after it but one day, in the seventh year, the vice-president of that corporation came in and I didn't know him. I felt like a fool when he handed me his card and he laid down on my desk a very fat check, and he said, "You fellows have been very, very patient. You have been after this account, I don't know how long." We knew, because we had it down. He said, "Here is the account and it is only a pin prick. It is going to be very much larger." It has been much larger since.

We discussed it with our new business committee and shook hands with ourselves. Doesn't it prove that you have to keep everlastingly after it to get success—which is the slogan of one of our advertising friends down in Florida.

It will sometimes take seven years to get a trust department prospect signed up. Don't get discouraged; keep after that prospect.

In conclusion, I want to refer to what Mr. Maddox said this morning. He said something about the necessity of getting the business from the executive officers and from the directors of the bank, and I think he spoke advisedly, because if any of us should take the trouble to analyze the business we have in the trust departments from our own officers and own directors, we probably would be a little bit surprised. We have a big field in our own officers and among our own directors. Let's go back from this conference fired with the determination of getting our directors and our officers who are eligible, into our trust departments, 100 per cent, and if we do that our conference will have been a great success.

Discussion

CHAIRMAN DIXON: I understand that Mr. H. F. Pelham of the Citizens & Southern National Bank is in the room, and I should like to ask if he would talk to us briefly on trust solicitation.

Cases of Successful Persistency

H. F. PELHAM (Vice-President & Assistant Trust Officer, Citizens & Southern National Bank, Atlanta, Ga.): It has been my experience that to get results in soliciting trust business, one must be persistent. One case that I recall is that of a man who was building up a big, fine business. I went to see him at least fourteen times and finally left my connection with the Detroit Trust Company and went out to Flint, Michigan, not knowing just what the prospect had done. He died last fall leaving an estate of over seven and one-half million, of which the trust company has, in a long trust, over half the principal of the estate.

This was simply a case of persistence, you might say. This man was interested, disarmingly interested. The hardest man to sell is the man who agrees with you. The man you can argue with, you can also appeal to his reason. The man who agrees with you disarms you instantly. All you get out of him is "yes, yes, yes" and that doesn't get you very far.

At the same time there was another case of a noted authority. We kept at him for nearly three years and then the will was drawn by the probate judge in the county in Michigan in which he lived. I telephoned him one day and asked him rather facetiously if I could make my customary call. He said, "Yes, I think I have some good news for you." I went over and he very proudly pulled his will out of his safe. While he was looking the other way, I looked to see how the last clause read. It named a trust company other than our own. He said, "There I have done it for you." I said, "You certainly have done it." I said, "Let's go down town and see Mr. So-and-So" his attorney whom I knew. "I want to get you down town as quickly as possible and get something fixed." We changed the paragraph in the will within half an hour. There, after three years of effort, after three years of digging away at him, he said he had done it all right, but he hadn't done it right! He died within two months of the death of the other man, leaving an estate of around eight or nine hundred thousand. Another case of just staying with him.

There was another case of a party who died abroad. The will had been drawn, three or four years ago, after several interviews with him, naming a company in Detroit. I saw it drawn and I helped work out some of the clauses in it, so that I know it was drawn. The will was delivered to him for signing; he was called to the telephone, and then a taxicab took him to the train. He went abroad and died there and the will was never signed. That shows how close you can come. The will under which he died was a will which was somewhat older than the will which was really his last will and testament. Of course it wasn't a will until it actually had been attested. Be sure to see that your package is done up, tied up and actually delivered.

In connection with life insurance trust work, it is another case of keeping constantly at it. I think that the type of trust solicitor in the last five years, and I feel very certain Mr. Reynolds will agree with me, has been changed most materially. I can remember some of the trust solicitors that were in Detroit five and six years ago, whom I don't see how a good conservative business man could have divulged his affairs to. Now, we find a high type of individual, a college man, a man who is discerning and capable of anticipating a man's questions, of taking a man's facts, as he can get them, and then making a hypothetical case so parallel to that he will sell him and sell himself. It is the same problem the life insurance man has, only I think a much finer problem.

CHAIRMAN DIXON: Those are very interesting experiences, Mr. Pelham, and we are very much obliged to you.

"Building Trust Service" Plan

SECRETARY LEWIS: There is one final thing that I should like to say and that is this: that the Trust Company Division, having in mind particularly the banks with slender means, has what it terms a "Building Trust Service" plan. It is available to all members of the American Bankers Association. It only costs $50 a year, and through it you receive 72 advertisements running in six series. These advertisements are illustrated and the copy is prepared by one of the outstanding advertising men of this country. You receive four posters a year. You receive a right to subscribe to 31 booklets and leaflets and the material may be used with equal effect by a trust company or bank. We are now revising the master booklet "Safeguarding Your Family's Future" of which nearly one-half million have been sold in this country, and modernizing it by including a chapter on life insurance trusts. You will see a display among the advertisements of this "Building Trust Service" plan and if any of you are interested, I should be very happy to have you get into it.

"Vanishing Fortunes"

W. H. FORD (Vice-President, Chattanooga Savings & Trust Company, Chattanooga, Tenn.): We have here today a film known as "Vanishing Fortunes." We have used it effectively in our local trust insurance advertising. This film was gotten out by one of our large companies several months ago and we were fortunate enough to meet with local representatives to show it to a number of local bankers. With the possibilities of using it in driving home the observation idea of life insurance, we purchased that film and arranged a program thereafter for the showing of it and decided to show it to all of the civic clubs of the city, the church clubs, and the women's clubs, which we have done. We feel that we have gotten fine publicity and much favorable comment from it. We will now show the film.

. . .Showing of motion picture, "Vanishing Fortunes" . . .

Pitfalls in the Trust Business

By H. L. STANDEVEN
Vice-President
Exchange Trust Company, Tulsa, Oklahoma

Many institutions make the mistake of assuming that the duties of a trust officer can be delegated to an inexperienced officer or clerk and thus expense saved to the department.

Selling problems and administrative problems of a trust department should be kept separate. Among the pitfalls to be avoided are: the acceptance of trust business on an unprofitable basis in order to obtain commercial banking accounts; accepting a trusteeship for a stock or bond issue without thorough scrutiny of the proposition; rate-cutting competition between banks; encroachment upon the field of the legal profession; and advertising willingness to act as co-executor or co-trustee.

Too much stress cannot be laid upon the importance of carefully reviewing all wills and trusts submitted and urging upon customers and prospects the periodical review of wills that have been written for a number of years.

NOT long ago a trust officer read a paper before a trust conference on the subject of the many problems that confront a trust company and the possible liabilities that might occur in the handling of trust business. One of the audience approached the speaker afterwards and said, "I have been in the banking business about forty years, and have recently considered opening a trust department. I came to this conference for the purpose of getting ideas as to the best way to proceed. After hearing your paper on the possible liabilities that we would be subjected to if we engaged in the trust business I decided not to open a trust department." This banker had no idea of the pitfalls that were ahead of a new trust department and rather than take a chance on future contingent liabilities he decided to leave this field of endeavor to younger and more experienced men.

It is not the purpose of this paper to discourage a bank or banker from opening a trust department but, on the contrary, to point out the dangers and pitfalls confronting a trust officer in the establishment and operation of a trust department which with proper care and precaution may be avoided.

Need for Best Men Obtainable

In opening a trust department or in the management thereof, after it has been opened, the principal duty of the Board of Directors is to secure for that institution the best men that can be obtained to handle these important duties. The success of the institution will reflect in large measure the ability of the man who is selected to head the trust department. One man can take a given set of circumstances and reach a successful conclusion, while another may produce utter failure. The reputation and standing of your trust department and the public's confidence in it will, in the first instance, be measured by the character of your trust officer. Many institutions make the mistake of assuming that the duties of a trust officer may be delegated to an inexperienced officer or clerk and thus expenses saved to the department. This is a most serious mistake. If a bank or trust company cannot afford to have an experienced, high-minded, capable and trustworthy trust officer, it cannot afford to have a trust department. An institution that attempts to operate a trust department without a qualified trust officer will pay for its mistakes in after years manyfold. The mistakes in a trust department usually are not discovered until long after they have been made. Sometimes many years lapse before the mistake is discovered and then it may be a very costly one. A prominent trust officer relates the following circumstances as typical of the experiences of a new trust department:

A Painful Experience

"A trust company which had not previously operated a trust department, undertook to engage in that line of business and employed as its trust officer an attorney of somewhat limited experience. A customer of the bank who was supposed to be a prosperous man, holding large downtown real estate interests, died. At the time of his death the customer was indebted to the trust company upon a note in the amount of about $35,000 and also had a savings account in the amount of about $9,000.

"Without making a careful inquiry into the situation, and acting upon the assumption that it was going to administer a large and solvent estate, the trust company persuaded the widow to waive her right of administration, and procured its own appointment as administrator.

"The trust company proceeded to collect rents from some of the properties and mingled the funds with the savings account standing in the decedent's name, failing to exercise its right to set off the savings account against the decedent's note and continuing to carry the bank account in the customer's name. The trust company paid out about $14,000 for taxes, interest on mortgages and payments of the rental under a ninety-nine year lease, and also made an advance of several thousand dollars to the widow on account of her year's allowance out of the estate.

"As the facts developed, the decedent had various obligations, in addition to his mortgage liability on real estate, of several hundred thousand dollars, arising out of misappropriation of funds placed in his hands as trustee, for which claims were filed against the estate. A slump in the real estate market greatly depreciated the apparent value of his real estate holdings and the estate proved to be insolvent. Various legal proceedings arose requiring the expenditure of a large amount of time and the employment of legal counsel by the administrator. No market could be found for the real estate at prices which would realize any substantial equities for the estate. Additional liabilities of the decedent came to light in the way of Federal income taxes for past years.

"As a result, it appears that the trust company, in addition to being unable to collect its $35,000 loan, will lose the benefit of setting off the savings account against its loan; may be compelled to restore to the estate the amounts paid out by it on account of taxes, interest, rent and advances on the widow's allowance, and will receive a small fee, entirely insufficient to reimburse it for its time and services as administrator, all of which would have been avoided if the trust company, before undertaking to operate a trust department, had established a proper organization and had carefully investigated the situation before administering the particular estate."

Sales Department Necessary

Selling problems and administrative problems of a trust department should be separate. One has to do with securing new business and the other with administering the trusts. Do not expect a trust officer to be able to perform miracles in the dual role of salesman and executive. The establishment of a trust department without establishing a new business department or a sales department would be like buying a furnace and not arranging for the necessary fuel to keep it going. Before attempting to sell the public you must first sell your own directors and officers. Little new business can be secured when the salesman is handicapped by having to admit that he has been unable to convince his own business family of the merits of his service, and the greatest blow that can befall an institution is to have one of its own directors or officers pass on and fail to name his own bank or trust company as executor in his will. Nothing will destroy the confidence of the public in an institution more than this.

Unprofitable Business

Do not take trust business on an unprofitable basis just to build up the department. When a trust department is first established the desire is to make a showing and everyone is anxious to secure business for this department. Many times concessions are made in securing business that make the handling of this business unprofitable and undesirable. Trust business is not like commercial banking. When a trust is accepted it is usually for a long period of time and in a great many cases it is impossible even to resign. If a contract is made to handle this business on an unprofitable basis in the beginning, this will follow through the entire life of the trust, which may be for many years. Many trust companies are now suffering losses from the result of business taken upon an unprofitable basis in their early experience. A trust officer should have the moral courage to stand out even against the officers of other departments of his own institution and refuse to accept trust business on an unprofitable basis in order to secure the commercial banking account.

An example of an unprofitable trust account was related by an officer of a southern trust company as follows:

"We have one instance in our own department in which a fund of approximately $300,000 has been administered for a number of years for an actual fee of less than $40 per annum, probably less than what it would cost simply to rent a safety deposit box for the purpose of holding three hundred bonds and papers and information pertaining thereto. Just a few weeks ago a relative of the creator of the trust died and we were notified that we again had been appointed trustee under his will, containing practically identical provisions as to fees, etc., as those contained in the first will. This was a situation which required careful handling but through the firm and tactful handling of the situation by the trust officer the fees were adjusted to a proper basis."

In the class of unprofitable business are the small trusts and guardianships that are usually handled at a loss. A great deal of this class of business creeps into the average trust department and unless the trust officer is wide awake and carefully analyzes each trust as it is presented, he will soon have his department handling a large volume of small business that is unprofitable and undesirable and which will do the company no good.

Costs and Fees

For some time the question has been actively before the trust companies of America as to the net earnings of the various trust departments. You will remember that some years ago Mr. Ralph Stone, Chairman of the Board of the Detroit Trust Company, had an article in Trust Companies Magazine which he headed, "Taking a Trust Department

and Making It Pay." Mr. Stone had all the elements of expense gone into very carefully and determined just what could be done in the way of commission rates so as to produce a proper profit for his company. I might say that each trust officer should undertake such a work in order to guard against the pitfall of quoting rates that are too low.

There is a similar danger in the corporate trust department in taking over agencies for stock registration and transfer, and trusteeships under corporation mortgages. There are occasions when the amount of responsibility assumed and the length of time that the detailed work consumes are not properly calculated, with the result that the charge made is not remunerative and, in fact, may not even carry the overhead. This is a condition that has existed for years but due to the attention that has been called to it at our meetings in New York, under the subject of corporate charges, the errors of the past are being corrected and we are now all getting a higher percentage than we did in the past. Even yet, however, the charges for corporate work are ridiculously low.

In the Loan Department, at times, there will be left with the company an excess of collateral with the note of the borrower. Where this collateral is in coupon form and there is a large margin, a great deal of time is taken in cutting coupons and placing them to the credit of the borrower, for which work the company receives no compensation. This is something that will have to be carefully watched in order that the overhead of the company be not unduly increased.

Generally, there has been a tendency on the part of all the banks and trust companies in the United States to do a great deal of work for which no charge is made, such as taking packages of securities from customers for temporary safe-keeping; receiving their checks for deposit while they are away from the city; looking after the payment of their income and inheritance taxes and calculating the necessary data for the returns. Much time is also taken up in giving advice as to investments, for which no monetary return comes into the coffers of the company.

Of course, any one transaction in the above fields must be handled on its own facts. It may very well be good business to do certain things, such as I have enumerated, free of charge, but in starting the business of a new company the indiscriminate and unthinking addition to the work of the company without pay is something that should be carefully considered ahead of time.

Agency accounts are very valuable to a trust company as business getters, as well as being immediately profitable because of commissions. The temptation here is to take such an account during the lifetime of a well-to-do customer at a rate which is not based upon the actual work done and the responsibility assumed in the particular account, but with the hope of getting an executorship or trusteeship in the future. This is really not good business and if a general understanding in any community could be arrived at, it might very well be that accounts such as this could themselves be made profitable sources of income.

Undesirable Business

A great amount of undesirable business is offered a trust company and new companies seem to have more than their share offered to them. A trust officer once told me that he spent 75% of his time on propositions that were submitted to him and which he turned down without taking to his board of directors, and the other 25% of his time he spent on propositions which he took to his board of directors and which they turned down. This percentage may have been a little high but I think that the experience of most trust officers will be about the same. One of the most usual cases presented to the trust officer is a proposition asking the trust company to act as trustee of some bond issue or real estate development proposition that may or may not have merit. In a great many cases the promoter desires the name of the trust company as trustee for the prestige that it will give to his proposition. I remember one instance in which we were called upon to act as trustee of a certain bond issue and after consideration we agreed to act. In due course of time the advertisement for this bond issue came out in the newspapers. The name of the trustee was printed in box-car letters, while the name of the maker of the bond was in such small type that it could hardly be read. This issue appeared to have some merit but our board of directors met the next day and retired the entire issue, rather than have the public buy it upon the representation made in the advertisement. Needless to say, we have acted as trustee in few cases of bond issues of this character since that time.

Any new trust business, such as corporate trusts, sub-division trusts and the like, should be thoroughly investigated and only those that you feel are financially responsible accepted. Do not issue beneficial certificates signed by the bank and trustees on some business or property you hold in trust, for salesmen to sell to the public, unless you have thoroughly investigated the proposition and can recommend it as a good investment, for the public will buy such certificates of beneficial interest on the strength of the bank's name signed thereto as trustee, giving little heed or thought to the meaning of the word "trustee" and, in the event of loss, will blame your institution.

My advice to trust officers is to scrutinize very carefully every proposition in which you are asked to act as trustee when the issue is to be sold to the public. If you do not, you may find that the promoter is selling your institution rather than his bonds. Many new trust companies have suffered greatly in their reputations by allowing their names to be used in this manner.

Registrar for New Organizations

Some years ago a southern trust company was requested to act as registrar of the stock of an industrial loan company, which was affiliated with an

organization maintaining similar companies in a number of cities in the south and middle west. The individuals connected with the local organization were at the outset people of responsibility and some standing, and the vice-president of one of the city's banks resigned his banking connection to accept a place with the national organization. The trust company accepted the appointment. Subsequently it developed that questionable practices had been made use of in financing the national, or holding, company, resulting in a receivership which so affected the local company that it too became insolvent. The stock had a fairly wide distribution among small investors in the south and while, of course, the registrar had taken no part in the distribution of the stock and had no legal responsibility toward the stockholders, it was, nevertheless, occasioned considerable embarrassment by the fact that many of the stockholders had in part been induced to buy the stock because of the bank's endorsement upon the certificates. As a result of this transaction this trust company has in recent years been very wary in accepting appointment as registrar or transfer agent of the stock of new organizations and, as a matter of fact, prefers not to act except for larger companies whose position is sound and whose shares are not likely to be distributed in the manner in which those of the industrial loan company above mentioned were distributed.

Shortly after the occurrence described above another instance came to our attention which confirmed our belief that great care should be exercised in accepting appointment as registrar or transfer agent of the stock of new companies. A local trust company was asked to accept a deposit account of a corporation owning certain timber rights in the Republic of Mexico. The individuals connected with the company were investigated and found responsible and the corporation's account was accepted. Later the corporation requested the trust company to accept appointment as registrar of its stock and, in view of the fact that the corporation was then maintaining quite a substantial account, this appointment was also accepted. At the outset the stock of the lumber company had been purchased largely by those directly concerned but subsequently a substantial amount of this stock was distributed among small investors. So far as we are aware the corporation was honestly conceived and handled but the project, which from the outset was recognized to be more or less promotional, proved to be a failure and here too the registrar has been subjected to some embarrassment by the fact that some of the smaller stockholders were led to make their subscriptions to the stock partly by the fact that the bank's name appeared upon the certificates.

Quite recently a trust company accepted appointment as trustee under a corporate mortgage and was named depository, subject to the terms of the mortgage, for a fund to be used in erecting a building. There were three separate construction contractors involved and a well-known local architect was appointed as agent to issue certificates, upon which payments out of the construction fund were to be based. Through an oversight the debtor corporation employed another architect, believed by them to be fully responsible, in connection with one of the three contracts. In due course a certificate for a substantial sum was presented over the signature of this architect but partly because of the fact that another agent was named in the mortgage and partly because investigations which were made at once with respect to the architect, unauthorizedly employed, did not prove satisfactory, the trust company refused to pay the certificate. Subsequently, it developed that the certificate in question had not been properly issued and that if payment had been made, a substantial shortage in the construction fund would have resulted, with the possibility of there being insufficient funds to complete the work which, under the circumstances, might, of course, have resulted in liability to the trust company and possibly loss to the bondholders. This occurrence is mentioned because of the fact that I know of no kind of transaction in connection with which pressure is more frequently brought to bear on the trustee, to permit deviations from the terms of the written contract, than in matters pertaining to construction funds and building loans generally, and it is our experience that the greatest care should be exercised initially, in providing workable provisions for the trustee to operate under and later, in choosing suitable agents and in carefully living up to the terms of the controlling contract.

Cutting Fees

In its anxiety to build up its trust business a trust company may indulge in a rate cutting competition with its neighboring companies that is not only undesirable but disastrous. There is always a great temptation to accept an estate when a prospective customer states to the trust officer that such and such a company will accept a trust at a certain rate and that his company can have it at that rate, if not, the other company will get the business. This sometimes causes a weak-kneed official to let the customer fix the rate of compensation for his company, instead of the company fixing it for itself. In other words, in this way your customer runs your business. Sometimes the statements made are not true, and the other company has not agreed to accept it at a reduced rate.

In a number of cities fiduciary associations have discussed this question and have agreed that when the rate cutter puts in an appearance no attention is to be paid to his efforts to hammer down the standard rate. However, it sometimes happens that one company will quote a lower figure than the standard commission of another company and then it requires great strength of character to let the business go out of the office even though the rate which the customer desires is not compensatory to the trust company.

Cooperation With the Bar

A trust officer should be scrupulously careful never to invade the field of the legal profession. It

should be the duty of the trust officer to cultivate the friendly cooperation of the lawyers of his community. A large part of the trust business of the country originates with the lawyer and his influence for good should not be underestimated. Trust companies create a great deal of business for the attorneys. Therefore, there should be complete and harmonious cooperation between attorneys and trust companies. Trust officers should avoid the pitfall of incurring the displeasure or animosity of the members of the bar in their communities. As a result of years of effort on the part of the Trust Company Division of the American Bankers Association the relationship between the bar and trust companies has reached a basis of mutual cooperation and understanding. Every bank and trust company should recognize the ethics of this relationship and impress upon its officers the necessity of complete and harmonious cooperation with the bar.

Reviewing Wills and Trusts

Every trust company has been offered wills and trusts that have been improperly drawn or do not contain operative provisions that are practical. I recall one instance in which an estate involving more than a million dollars was being disposed of by will. The will contained many different provisions, among which was a testamentary trust, and apparently was carefully drawn. However, after a thorough analysis this will was found to be inadequate, because the person drawing it had disposed of everything but the corpus of the estate—and, because no disposition had been made of the corpus, the trust would have failed. This matter was brought to the attention of the maker of the will and it was corrected. Had this testator died with the will in its original form the trust company would have undoubtedly been censured for having accepted a trust of that kind.

A southern trust officer reports the following:

"One of the earliest executorships which we accepted was that of a former director who waited until he was in a highly nervous and rather feeble condition to make his will. The will, which was dictated to a notary in the presence of a number of witnesses as provided by our law, was not entirely clear in all respects because of the fact that the testator did not take kindly to several practical suggestions made to him at the time the will was dictated. This succession was not finally closed until about three years after the death of the testator, owing to the fact that a contest arose between the residuary legatees and a special legatee, and the entire settlement of the case, which went through the Supreme Court of the State, finally hinged upon the matter of punctuation. Specifically, the will provided that the contents of a certain bank box should be given to the testator's former partner, "such articles as jewelry to be distributed by him among my friends." The special legatee demanded that the entire contents of the bank box in question be delivered to him with the understanding that such articles of jewelry as he might find would be distributed according to the will, whereas the residuary legatees insisted that the special legatee was to receive only such jewelry as was found in the box and that securities and other valuables therein contained should be delivered to them. The Court eventually decided in favor of the special legatee, but the entire transaction was an extremely wholesome one for us in that it demonstrated clearly the importance of exactness in the preparation of wills."

Too much stress cannot be laid upon the necessity and importance of carefully reviewing all wills and trusts submitted to you, and trust companies generally should adopt the policy of suggesting that wills that have been written for a number of years be reviewed occasionally. Family conditions often change. A will that meets all of the conditions of the family today may be obsolete in a few years. Sometimes great injustice has been done by not having a will re-written to meet the conditions as they change from time to time. Recently our company administered an estate in which the will was written over twenty years ago. Had the will been written in recent years the disposition of the property would have been entirely different. We know that the testator would have disposed of her property differently had she made a new will before her death.

General Suggestions

The pitfalls that confront a trust officer in the handling of trust business are so many and complicated that it is possible only in a small degree to outline a few of the outstanding questions that confront us:

Investments. Trust investments must always comply with the law. Whether you operate under the Federal Reserve Act or a state law you must follow the law strictly and a violation thereof may cause serious loss to your company.

Principal and Income. The question of what constitutes income and what constitutes principal of a trust estate is one of the most serious questions that confronts a trust officer. A mistake may suffer his company to heavy liability. A volume could be written on this subject alone.

Legality of Trusts. A trust officer should assure himself as far as possible that a trust has been legally created before he proceeds to administer it.

Disposition of Estates. Sometimes great pressure is brought to bear upon a trust officer which causes him to make distribution to the heirs and legatees of an estate before the same should be done according to law. Mistakes of this kind are serious and often expensive. Many an administrator or executor who has made partial distribution of an estate to heirs and legatees has afterwards found that the estate was insolvent and that he had no authority to make distribution.

Co-executor and Co-trustee. Some trust companies seem to encourage this class of business and

carry advertisements setting out the desirability of naming the wife or a member of the family or a friend as co-executor or co-trustee. Experience has taught me that this is a mistake. In the first place, the very purpose of corporate administration is to relieve the wife and members of the family of the trouble and trials of a tedious administration of the estate in the courts. If a trust company is properly organized to administer an estate, it does not need the assistance of a co-executor; if it is not properly organized for this purpose, it should not act at all.

Succeeding Trustees. If you assume the responsibility of a succeeding trustee do not rest at peace with the assurance that you can proceed with the handling of an estate in the same manner as it was handled by the former trustee. Many a trustee learns that he has responsibilities far beyond his imagination. Trust officers in accepting a succeeding trusteeship should carefully analyze all circumstances with reference to the possible liability of the trustee.

Trustee's Warranty. Great care should be exercised in making a warranty or representation by the trustee. I know of no reason why the trustee should make a warranty, but, on the other hand, the trustee should always be protected by the usual protective clauses that warrant the acts of a trustee made in good faith.

Taxation. The responsibility of executors and trustees regarding taxation is fixed and definite. No executor or trustee should make distribution of an estate or trust without definitely having all the tax liability settled. Trustees are personally liable if they violate this rule.

Valuable Rights. Trustees should not fail to exercise valuable rights given to them under stock and bond issues. Failure to exercise these rights may, in many cases, subject the trustee to liability.

Escrows. It is a temptation to accept escrows without giving the matter much thought. Sometimes escrows are loaded with conditions that would make an escrow-holder liable for damages. Fees in these cases are usually small. Therefore, great care should be exercised before accepting escrows.

At a trust conference several years ago a trust officer writing on the dangers to be avoided in the organization of new trust departments summed up the entire subject in such a forceful way that I desire to quote his words. He said: "Lack of proper appreciation of responsibilities to be assumed, ignorance of cost and procedure; or, worse yet, a half knowledge that knows not its own limitations, lies at the root of most of our early mistakes. Overeagerness to accept new business without counting the cost in money and reputation; letting down the trust bars just a little to favor the customer of another department; perhaps the selection of trust officials who are without a working knowledge of the law, accountancy or investments, the reading, writing and arithmetic of trusteeship; making the watchword, quantity of work done and not quality—these are but evidences of an incorrect perspective that is soon corrected in the bitter school of hard knocks."

Discussion

CHAIRMAN CHAPIN: Mr. Standeven has illustrated and pointed out pitfalls that you all might avoid. He gave instances where others who hadn't avoided them went into the pit. Doubtless among us we have many men who out of their own experience could contribute other instances. What have you to say in comment, or in addition to the splendid paper of Mr. Standeven?

Use of Bank's Name

H. F. PELHAM: Regarding the use of the prestige of the bank, I think the experience of all of us is that there is an enormous liability under that subject. A case came to my attention within the last few weeks, where the name of a prominent southern banking institution was drawn into the advertising of a certain type of security. I know of two or three instances in the North where most material embarrassment has been occasioned by the unauthorized use of the name of the bank for the stretching or expanding of an advertising license. A clause should be placed in the instrument, specifically forbidding the use of the institution's name in connection with the marketing, or advertising, or setting forward in any form, of the issues in the use of the bank's name. It is a serious thing, and I think with our first conference here, we can't too strongly challenge the minds of those with us to watch that thing. To carry ourselves on as a trust institution we have nothing other than our name to go on. If that name is sullied in any form we are the losers, as well as is the purchaser who actually has or thinks he has our standing behind him.

PRESIDENT MCLUCAS: On that question of the use of your institutions as trustees under bond issues or mortgages, I want to tell you of an incident that happened a good many years ago, which will show you very clearly how important it is. There is an institution of great consequence owned by the richest family in a western state, that accepted a trusteeship under a mortgage on an irrigation project. The irrigation project was not a success. In due course, as trustee, this trust company brought foreclosure proceedings. The project was so notoriously bad that the public immediately assumed that this institution was involved, notwithstanding that the institution was owned by well known, rich, solvent people. A run started on that bank. It persisted for days. They couldn't break the bank

because it had all the money necessary to pay all depositors, but the story, and it is a very true one, illustrates how important it is that we use great care in accepting appointments in such matters.

Personally, I have been made an individual trustee in a number of bond issues where the corporate trustee would be in another city. Under our Missouri law, for property in Missouri there must be an individual trustee named also. I accepted those appointments because some of the larger city institutions would ask me to do so, not knowing at the time of acceptance what it was.

I had a very recent experience. This was a public offering. My mail quickly brought in many letters asking me about this issue, how good it was, and all about it. I didn't know the answer. I relied on the fact that this corporate trustee of great consequence was all right and justified me in accepting. That again illustrates how the public hold the trustee to account, and what the consequences may be of accepting.

Co-executorships

H. F. PELHAM: As to the question of co-executorship and co-trusteeship, I wonder what the experience of Judge Standeven has been as to the use of an advisor to the executor and trustee. Co-executorship is something certainly to be avoided, and it really pains me at times to see institutions advertising for co-executorships, because I feel that they do not know whereof they speak.

MR. STANDEVEN: Mr. Pelham, the point you bring up is one of considerable thought on the part of all trust officers. In many cases you can satisfy your prospective client by suggesting the advisory person or advisory committee; in a number of wills and trusts that have been written in our experience, that has been done. I remember one instance in particular where a man of considerable estate wanted his confidential secretary to be his co-executor; explaining it not only to the confidential secretary but to the testator himself, he finally agreed that this man was to remain on and at the same salary he had been receiving, and he was to be consulted in a great many matters involving the disposition of his personal affairs, for instance the continuation of the operation of his oil affairs, and things of that kind. Great good can come from advising in that way.

Sometimes trust officials, where they have no advisor of that kind, make a mistake in trying to assume all the responsibility without consulting those who are directly interested in the results, particularly members of the family and interested business associates, in the management of the estate.

The Wise Course

The wise course to pursue is to cultivate in the most intimate way possible, the beneficiaries, particularly the family, the wife, and the children, if they are adults, or even if they are coming close to adults, and to ask their advice although you may not follow it, or you may show them the reason you shouldn't follow it. A close association of that kind with the beneficiaries of any trust, either testamentary or otherwise, is very beneficial or helpful in the administration of that trust.

I am sure if the trust officers realized what a problem it was to administer estates with co-executors and co-trustees, particularly if there is more than one co-executor and co-trustee, they would try to avoid that as much as possible. I can hardly conceive of a case that would be harder to handle than where there were several co-executors or co-trustees, more than two, for instance, and where a majority would have the control and the trust company wouldn't have anything to say about it. I think we would decline to act in a case of that kind.

J. H. GREEN: I think every trust company should avoid as far as possible co-executorships. I have had a very recent experience of that kind which illustrates the difficulty of acting under those circumstances. We were named as co-executor at the death of a party. When we came to probate the will we realized she was thoroughly incompetent to act. In the course of administration, it became necessary to sell a piece of land in an adjoining state. Under the law of the state the co-executor had authority to act. When we came to the point of selling the land in an adjoining state it had to be an ancillary administration. It was absolutely necessary to have both executors qualify in the hands of the administration. We had to probate the will in the other state. Fortunately, however, there was only one piece of property to be disposed of. It was not a great deal of trouble to communicate with the co-executor, although she had moved away, and have her sign the necessary papers. You can imagine the necessary difficulty if we had had to consult her in every detail.

Advisor's Compensation

B. W. BARNARD: In connection with the suggestion that an advisor be appointed in the will, the question arises as to compensation for that advisor. It seems to me that the compensation of such advisor should be rather on the basis of payments to an attorney, and should not affect the compensation to the trust company as executor or as trustee.

Another point that occurs to me is this. Where a trust company in a large city goes outside of its territorial limits, would it be feasible to have named in small towns a trust company or bank in an advisory capacity acting with the executor and trust company of the large city which is named in the will?

MR. STANDEVEN: Usually advisors are not paid any compensation. There is usually no compensation allowed. It is more for the benefit of the members of the family or friends or business associates. But where compensation is contemplated or allowed, it certainly should be allowed in addition to the regular compensation allowed to the corporate fiduciary.

With reference to the other question of small

banks in the smaller towns, it is always advisable to consult with people in local communities regarding local affairs. Naturally, we would all do that under any conditions, and where the estate had property in smaller towns, the first thing the corporate executors in large cities would do would be to ask the corresponding bank or some person qualified in that community to advise regarding the conditions existing surrounding that estate in that particular locality.

F. W. ELLSWORTH: Down our way we discourage as far as possible the suggestion of co-executorship, because if the bank and the wife, for instance, are co-executors, the bank does all the work and gets one-half of the compensation. Under our law the compensation would have to be split between the executors. On the other hand, there are cases that have been referred to us where, in order to get the business at all, we have to suggest to the man the idea of having his wife appointed with the bank, and in some instances we can get the business only by doing it.

Officers and Directors

C. N. EVANS (Asst. Cashier, Fifth Third Union Trust Company, Cincinnati, O.): Judge Standeven emphasized the importance of having the officers and directors of a trust company designate the company as executor under their wills. I remember going out to see a very wealthy farmer whose estate involved about 1,000 very fine acres. He had a family of five children. I obtained an interview with him at his home and found him very much interested. As I went over the various phases of the work of the corporate trustee as contrasted with that of an individual trustee or executor, he came almost to the point of assuring me that he would place his will with us. Finally he said, "I see the names of your directors on your statement. This gentleman is one of my life-long friends. He is a very wealthy man, a man largely interested in your company. Do you have his will?"

That was the straw that broke the camel's back. We didn't have his will. We never did get his will and we lost the will of the farmer.

I think this point should be carried back in the minds of all of the young men who are soliciting trust business to start on the directors and officers of the bank. Then when they go into the field they can go with the assurance of being able to say, "Yes, our people who are connected with the bank, and who are well known to you, have done what we are asking you to do."

The Community Trust's Place in the South

By RALPH HAYES
Vice-President
Chatham & Phenix National Bank & Trust Co., New York, N. Y.

Fifteen years ago community trusts were spoken of only as a future possibility. Today these foundations exist in 60 cities and number 180 banks and trust companies among their trustees.

For hundreds of years rigid perpetual trusts have been projected into an unknown future, upon the naïve assumption that conditions, however unstable heretofore, would hereafter remain as at present; that change was a characteristic of the past but not of the future. For lack of a saving flexibility, a trust fund faces the hazard of becoming moribund as thousands before it have and of sinking at length into a morass of obsolescence neither creditable to its founder nor serviceable to those who come after him.

In explaining how a community trust functions, Mr. Hayes points out that while the custody and investment of the funds of the trust is in the hands of a trust company or bank, the distribution of the income is under the supervision of a central distribution committee composed of the leading citizens of the community. It has been said to be "the greatest single contribution of our generation to the art of wise giving."

THE memory of men who do not yet confess to venerable years can reach back to a time in the 80's when a strange device appeared upon the streets of Baltimore or Cleveland. Which was the natal city is still disputed, but there was no dispute about the revolutionary import of the thing itself. It was a trolley car, and it was heralded as the ultimate and permanent solution of municipal and inter-urban transportation. Within a decade, no American city with a decent regard for its future could afford to be without it. In the first flush of its youth, it seemed likely to sweep the country; to become the great American vehicle of local travel.

Then something happened. . . . In the dozen years preceding 1927, 259 trolley companies, capitalized at more than a billion and a half, fell into receiverships; over 500 companies abandoned parts of their lines; upwards of 250 more abandoned service completely. Wise men say the trolleys have weathered the worst of their troubles; but clearly their place in urban transportation will be less exalted than the regal role that seemed marked out for them forty years ago.

A part of what happened is evident. While the trolley was still in the first phase of its glory, a bicycle designer named Duryea was working over a curious motor-driven gadget in Chicopee, Mass. And in Kokomo, Ind., a gas company's superintendent—a Mr. Haynes—was whispering to a couple of young mechanics named Apperson about a scheme of his for producing a horseless carriage.

By the end of '95, a Chicago newspaper was bold enough to sponsor, as a feature spectacle, an automobile endurance run. There were six starters. Two finished—the winner flashing over the fifty-three mile course in ten hours and twenty-three minutes. That was a gala occasion for the infant auto industry but a bitter day for a certain workman in a Michigan powerhouse. Consumed with anxiety to see that race, he tried desperately but vainly to persuade someone—anyone to loan him enough cash to buy a railroad ticket from Detroit to Chicago. . . . But he feels better about it now. In the intervening thirty-three years his financial embarrassment has been substantially relieved by the profit from the 15,000,000 autos he has built.

A Kaleidoscopic Era

There is in the United States now, an automobile for every family. I cite this illustration of the decline of the trolley-car and the spectacular development of the motor-car, to emphasize the palpable observation that there never has been a generation or a civilization subject to the flux and variation that ours is subject to in its habits, its beliefs and its institutions. Newton Baker remarked a while ago at the Lawyers Club in New York that we live in a world that has changed more rapidly and in more of its fundamental conceptions during the past dozen years than the world ever changed before in as many centuries.

From places distant a thousand miles from here, men have come by rail to be present at these meetings; and this within a hundred years of the time that a school board in my state of Ohio refused to

permit its building to be used for a debate upon the likelihood of railroads ever becoming a practical agency of travel and transportation. Even to speculate upon such a fantastic thing was condemned by the Board as "rank infidelity." "If God had designed that His creatures should travel by steam" that school-board ruled, "He would have foretold (it) through His holy prophets. It is a device to lead immortal souls to Hell."

To reach the railroad train that brought me here, I was whisked for five miles through a subterranean tube. When the first unit of that subway was projected, thirty years ago, it was regarded as a sufficiently questionable venture to warrant a test case in the courts; and following a judicial inquiry, the Appellate Division of the First Department vetoed the project as a visionary and impossible scheme.

"The probabilities indicate," the decision said, "that after sinking $51,000,000 in it without being able to complete it, the enterprise would have to be abandoned."

And to leave no doubt upon the subject, the court produced scriptural authority from the 14th chapter of St. Luke:

"For which of you, intending to build a tower, sitteth not down first and counteth the cost . . . . lest haply after he hath laid the foundation, and is not able to finish it, all who behold it begin to mock him?"

In the three decades that have gone by since then, virtually three quarters of a billion dollars have built five hundred miles of subway in that one city.

Bound from France to England last summer with a dozen other passengers in the cabin of a Handley Page biplane, I read, three thousand feet above the cliffs of Dover, a statement, made less than twenty-five years before, by a distinguished mathematician and a brilliant astronomer, then the head of the Almanac Office of the United States Naval Observatory, who was prepared to make an end of foolish talk by crack-brained zealots who dreamed aloud about a time when men would fly in machines heavier than air.

"The example of the bird," this scholar wrote in 1903, "does not prove that a man can fly. May not our mechanicians be ultimately forced to admit that aerial flight is one of that great class of problems with which man can never cope, and give up all attempts to grapple with it? . . . The construction of an aerial vehicle which could carry even a single man . . . requires the discovery of some new metal or some new force. Even with such a discovery we could not expect one to do more than carry its owner."

Within sixty days after the Admiral had thus settled the question, the Wrights were flying over Kittyhawk; and within a quarter of a century airships had crossed the American continent in a day, had spanned the Atlantic—in either direction—without a stop, had traversed the Pacific in a single hop, had gone around the world, had flown to the North Pole and were setting out for the South Pole.

The airplane, the subway, the locomotive, the automobile, are striking and dramatic achievements—the result of a persuasive and persistent appeal to inventive genius and commercial resourcefulness. But even in what we regard as most prosaic we find the same wealth of evidence of how completely and unexpectedly the old order changeth.

The Bathtub a Symbol

Consider the bathtub. It would be difficult to conceive of anything that seems more staid, less controversial. I dislike to peddle scandal about a useful and respectable household contrivance, but the fact is that the bath-tub had a stormy youth and a wild career. In 1840 there wasn't one in all the land. Two years later a Mr. Thompson brought back the idea from England and had one built in Cincinnati. It was made of mahogany, lined with sheet lead and weighed 1750 pounds. The initial bath was taken on December 20, 1842. Indeed Mr. Thompson took two of them that day—a cold one in the morning and a tepid one in the afternoon. A few days later he gave a Christmas party and each guest was allowed to have a bath.

But powerful and bitter opposition developed. Newspapers thundered against the tub as an epicurean toy, calculated to corrupt the democratic simplicity of the Republic. Physicians denounced it as a producer of rheumatic fevers and inflammatory lungs. After a while, prohibitory statutes were invoked to curb the bathtub evil. An ordinance forbidding their use between November and March failed of passage in the Philadelphia Common Council by a margin of two votes. The Legislature of Virginia imposed a tax of $30 on each tub set up in certain towns. Heavy water rates on tub-owners were employed in other towns to stop the spread of the tubs; and, in 1845, their use, except on a physician's advice, was made unlawful in Boston.

But a day of deliverance was dawning. Vice-President Millard Fillmore, stumping Ohio in the campaign of 1850, passed through Cincinnati, was taken to see the tub, and given a bath in it. Later, when Zachary Taylor died and Fillmore became President, he directed the Secretary of War to invite tenders for the construction of a bathtub in the White House.

A vociferous outcry greeted this proposal, from the Big Bill Thompsons of that day; these tubs, they alleged, were monarchial trappings brought from England; Monticello and Mount Vernon, they pointed out, had none of them and every President from George Washington to Millard Fillmore had managed to carry on the nation's business without them. But Fillmore persisted, Congress approved, and a Philadelphia contractor installed a cast iron tub that proved long enough for even Mr. Lincoln's use. With a tub in the White House, the prejudice against them gradually diminished; but this thing that we regard as so much a necessity was quite unknown to our great-grandfathers and roundly denounced by our grandfathers as a menace alike to health and democracy.

Ours is a kaleidoscopic era. Constant readjustment of standards and continually varying circumstances cause us repeatedly to revise our views and to reappraise our values. We occupy the earth at a time when customs that were believed permanent, and institutions of ancient origin may be revamped or discarded overnight. What is sauce to one generation may be applesauce to the next.

Frozen Funds

In the animal and vegetable kingdoms, the survival of an organism requires a faculty of adaptation to an ever-shifting environment. But for hundreds of years we humans have been projecting rigid perpetual trusts into an unknown future, upon the naïve assumption that conditions, however unstable heretofore, would, hereafter, remain as at present; that change was a characteristic of the past but not of the future.

If I leave behind me a trust fund to serve some charitable object, my trust may be of perpetual duration and it may be hedged about by every restriction my fancy can inspire or my eccentricities suggest. Those of you who have no faith in ouija boards and table-rapping will agree that, with respect to the management of that fund, what I am pleased to call my judgment, if any, will be terminated by my death. But though my own voice may be stilled and my own reason paralyzed, the stipulations I insert in my will or trust deed may be calculated to prevent anyone else from applying the administrative discernment and discretion that I cannot give from my tomb.

In this mobile and surging world, I may set up a trust designed to be forever unalterable and hampered by limitations which I cannot revise and which I authorize no one else to amend. For lack of a saving flexibility, my fund faces the hazard of becoming moribund, as thousands before it have, and of sinking at length into a morass of obsolescence neither creditable to its founder nor serviceable to those who come after him. It is as if a captain were to lash down his steering wheel, fasten his rudder into position, and forbid his navigators to adjust their course, however long the voyage and however fierce the storms.

So many of these funds have grown antiquated in England and America during the past three hundred years that the State itself, in extreme cases and as a last resort, has intervened in an effort at reclamation. If it can be demonstrated, by judicial proceedings, that it has become wholly or virtually impossible—not merely unnecessary or expensive or fantastic, but entirely or essentially impossible—to execute the provisions of an instrument creating a charitable trust, the courts will assume responsibility for breaking the will or trust agreement to the degree required to make its execution possible. But courts are naturally reluctant to sanction this drastic procedure; it provides a remedy only when the administrative breakdown is complete or the emergency is desperate; and the process of resorting to it is likely to be as prolonged and expensive as it is uncertain.

A Philadelphian who died before the middle of the last century, left a fund for "white widows of respectable character, born within the United States, whose husbands shall have died within the present defined boundaries" of an area lying south of South Street, east of Passayunk Avenue and north of an irregular line running from Moyamensing Prison to Front and McKean Streets and thence to the foot of Mifflin Street on the Delaware River. . . . In three quarters of a century that part of the city has completely changed; the racial origins of its inhabitants are wholly different; the beneficiaries that founder probably meant to serve now occupy other and distant sections of the city. But the fund he left is static and stationary. It remains, and must continue to remain, within the boundary lines he drew for it.

A fund has existed in Pennsylvania since 1790 to provide loans for certain classes of young men establishing themselves in business. I observed a recurring statement in successive annual reports that no loans were made during the year because no applicants possessed the qualifications required by the terms of the fund and I wrote to inquire when the most recent applicant who *did* possess the appropriate qualifications had presented himself. That occasion, I learned, was a decade before I was born—fourteen years before the Boer War, during the reign of Queen Victoria and the presidency of Chester A. Arthur!

These are instances typical of hundreds. They raise the question of whether the affairs of the earth shall rest in the hands of the living or pass to the grip of the dead. The mounting number of these frozen funds has constituted a challenge to the conscience and the ingenuity of men. I venture the assertion that, for the future, a solution has been evolved that is sound in theory and tested in practice; one that has been called by a distinguished economist, Col. Leonard Ayres, "The greatest single contribution of our generation to the art of wise giving." I refer to the Community Trust.

How the Community Trust Functions

Most of you know its characteristics. They are few and simple.

The first of these is that the funds and property of the Community Trust shall be in the custody and management of a trust company or the trust department of a state or national bank—this for the reason that nowhere else is equal security, skill and continuity of administration to be had. Under the multiple form of trusteeship developed in New York and elsewhere, any number of financial institutions may qualify as eligible trustees of a community trust, twenty of them, located in five cities, are now so functioning in the New York Community Trust—and each founder may choose the one which shall have charge of his fund.

The second characteristic of the Community Trust relates to the method of disbursing the in-

come from its funds. The trustee bank or trust company having invested the principal of a fund and collected the income from these investments, that income is distributed under the supervision of a central Distribution Committee. A minority of this Committee is selected by the associated financial institutions and a majority is chosen by persons occupying positions of peculiar trust and responsibility in the Community, such as—to take New York as an example—the Senior Judge of the Federal Circuit Court and the Presidents of the Association of the Bar, the Chamber of Commerce and the Academy of Medicine.

This Distribution Committee, gradually renewed through cycles of six years, is the continuing representative of the founder of each fund, in relation to the paying out of income from that fund. It exercises for him the discretion he himself would presumably exercise were he endowed—as it is—with unending existence. His desires regarding the agencies or objects he wishes his fund to support are scrupulously executed; and in every case he includes the direction that if in changed future circumstances, a literal adherence to some one or more of the original specifications becomes impracticable, the Distribution Committee shall act for him in making such amendments as will preserve his fund from being bound to objects that are obsolete.

That first element—that of safe-guarding and investing a fund—is fiscal in its nature. For performing just that service, trust companies and trust departments were instituted; in performing it, they have grown strong and multiplied, to a degree, and with a rapidity that has amazed even a generation whose receptiveness is so jaded and blasé that only superlatives can impress it.

But the remaining element—the application of the income from trust funds—is primarily a sociological task. It is a pastoral rather than a financial operation, which the board of directors of the trustee is neither especially adapted nor particularly anxious to undertake. So, therefore, it makes available this central Distribution Committee, which addresses itself solely to the application of income; which appropriately contains among its personnel representatives of the community at large; and which has the advantage of acting on behalf of not merely one institution but of all the member companies and banks of the Community Trust.

In putting this procedure into practice, the primary aim has been simplicity of operation. The complete mechanism is set forth in a carefully phrased document. This is adopted as a resolution by those banks and trust companies agreeable to accepting trust funds for administration in accordance with its terms. This resolution is recorded by the Secretary of State and the County Register and is made a part of each instrument that creates a fund in the Community Trust. To avoid the cumbrous necessity of inserting the full text of it in each will, the Legislature of New York passed a statute authorizing the incorporation of its provisions in any will by simplying referring to the officially recorded copy.

An individual wishing to use the facilities of the Community Trust chooses the trustee he prefers and by will or deed of trust transfers the trust fund to it, to be administered in accordance with the terms of the Resolution creating the Community Trust, which the trustee has already adopted. The founder may give his fund any name he wishes. He may state any objects he desires it to support. The trustee becomes responsible for safe-guarding and investing the principal and reports quarterly to the Distribution Committee the amount of collected income available for disbursement. If the founding will or trust deed named the agencies preferred as beneficiaries and if no subsequent developments have made such application impracticable, the Distribution Committee instructs the trustee to make disbursement to the designated agencies. Or, if the will or trust names only the *general* intention of the founder, the Distribution Committee determines the specific application that carries out that general intention, and accordingly instructs the trustee. Or, if entire discretion is lodged in the Distribution Committee by the founder, it exercises that discretion.

Trusts Exist in Sixty Cities

Fifteen years ago, no one could have spoken to you or to anyone about Community Trusts except as a future possibility. They did not exist. Ten years ago a beginning had been made in a few cities, but I know of no trust funds that were yet being administered. Five years ago the offices of the New York Community Trust were yet to be opened.

Today these Trusts or Foundations exist in sixty cities. They number a hundred and eighty banks and trust companies among their trustees and the list enlarges monthly. The six institutions that were sponsoring the New York Community Trust in 1923, for example, had increased to ten in 1925, fifteen in 1926, twenty in 1928. The income disbursed by the New York organization began at $500 in 1924 and rose to $16,000 in 1925, to $33,000 in 1926, to $56,000 in 1927. Sixteen community trusts were distributing income in 1925; in 1926 there were eighteen; in 1927, twenty. The total amount distributed in 1925 was approximately $441,000; in 1926 it was $492,000; in 1927, $593,000. The principal of the funds being administered has risen beyond $14,500,000.

Through these first fifteen years, these newly-fashioned agencies have had to feel their way. They have been few and small and young in these beginning years; oftentimes their path has been obscure and frequently the obstacles were great. But their movement, it becomes evident, has been forward and I have faith to believe that where they blazed a trail, our children's children will find a broad highway.

Discussion

CHAIRMAN CHAPIN: Mr. Hayes very intelligently formulated a question, and he presented it with great force. The question is, "Has the Community Trust a Place in the Southern States?" What have you gentlemen to say about that?

Fees

W. C. BOWMAN: Mr. Hayes, it is the custom in a good many institutions to make a different fee rate for the handling of funds for charity, religious or missionary purposes. I should like to know whether under the Community Trust the standard fee basis should prevail just as for other purposes, and also whether or not it would be the policy to compensate anyone other than the trustee keeping the funds invested, in the administration of the trust.

MR. HAYES: The practice in Cleveland and New York, which are the two places that I am familiar with, has been to charge the same fees with respect to funds in the Cleveland Foundation or the New York Community Trust, as in effect for any other trusts. In general, the practice in New York with respect to any charitable trust, is to accept one-half the fee on principal when the trust is opened, and one-half when it is closed, and these being perpetual trusts, it has the effect of reducing by 50% the fee on principals, since the closing time never comes. But our recommendation has always been not to reduce the fee, thereby not making the work of the trustee dependent upon the good grace or the charity of a trustee, but making it a duty performed for hire.

There is a provision in the resolution and declaration of trust creating the community trusts, to the effect that in addition to the customary fee, received by the trustee, expenses incurred by the distributing board shall be a charge against the estate. For example, an elderly physician wished to use his fortune for educating young men for the medical profession. That entailed selecting the men from throughout the country, holding, perhaps, competitive examinations, picking out the schools where they should qualify, watching the course of their work in those schools. That probably would be a considerable expense to the distribution committee and that expense would be a legitimate charge against the income of the estate. Other than that, no additional charge, other than what the trustee receives, is made.

P. H. SITGES (Trust Officer, Interstate Trust & Banking Company, New Orleans, La.): I would like to ask the gentleman what his idea is with regard to the policy of charging separate fees to the executor or trustee where you act in open capacity under a will. Possibly a community trust fund might be left under a will, for a portion of an estate.

MR. HAYES: That question never arises with the community trust as such, for the reason that the community trust is not incorporated, so that no one may ever leave a dollar to it. The funds are left to the various incorporated trustees, that is, the trust companies which are trustees for the community trust, and that is a matter of policy determined by the particular trustee, to which the fund is left. The function of the community trust, or its distribution committee, begins when that trustee certifies to the community trust that he has so much income from such and such a fund available for distribution. The charges prior to that time, and the question of whether there should be one charge or two charges, is a matter for negotiation between the individual who creates the fund and the trustee which he names.

Making the South "WILL-CONSCIOUS"

By GILBERT T. STEPHENSON
Vice-President
Wachovia Bank & Trust Co., Raleigh, N. C.

Recent statistics show that the South is not yet "will-conscious." Of the 6,100 persons who died last year in North Carolina leaving estates, 4,410 are being settled by administrators and only 1,690 by executors. This would indicate that only one out of every four persons with estates have made wills.

An analysis of the costs of settling 200 estates revealed that it actually cost only 2.56 per cent of the gross value of the estate and that the cost was distinctly less in the case of trust companies and banks than in the case of individuals.

The idea of corporate executorship and trusteeship must become more firmly embedded in the consciousness of the South before it is wise for banks to turn their attention to developing corporate, living and life insurance trusts, agencies and custodianships. Making the South will-conscious is a social opportunity as well as an economic problem and will help to make wealth a blessing instead of a curse; a stimulant and not a sedative to the ambitions and aspirations of a rich man's children.

WHEN one accepts an invitation to discuss a subject too big or too complex to be encompassed as a whole, his only recourse is to choose a component part of it that is fairly representative of the whole and try to encompass that. "Making the South Will-Conscious" is such a subject. The South, stretching from the Potomac to the Rio Grande, is too big a territory to treat as a unit; and information about will-consciousness in that vast area is too fragmentary to permit treatment with any degree of assurance. The risk of losing oneself in inconsequential generalities is too great to take. By choosing North Carolina as a fairly representative part of the South of whose will-consciousness reasonably accurate information is available, one may hope to make some progress towards discovering and stimulating the will-consciousness of the South as a whole. At any rate, that is the method of approach adopted for this address.

Estates to be Settled

In North Carolina in 1927 approximately 22,000 adults died, of whom 14,000 were white and 8,000 colored.

Of the 22,000 who died, 6,100 left estates that are being settled according to law and 15,900 either left no estates at all or estates too small to require formal settlement.

If the same proportion obtains throughout the general population, 74 adults out of every 100 leave estates too small to require the services of an executor or administrator.

These figures are for the total adult population of the State, men and women, white and colored. We have no statistics of the respective number of men or women or white people or colored people, stated separately, who leave estates. We do know that the colored people constitute about one-fourth of the entire population and list for taxes about one-twenty-fifth of the property of the State. We know, furthermore, that in the case of men and women, the title to most of their property is in the husband, however large a part the wife may have had in its accumulation. With over 95 per cent of the property owned by white people, are we not safe in estimating that the title to fully two-thirds of that 95 per cent is in white men? If so, only 50 white men out of every 100 one meets—not to mention white women or colored people—will leave estates that will require the services of an executor or administrator.

Or one may state the same facts in numbers rather than percentages. There are approximately 300,000 white men and 100,000 colored men in the State subject to poll-tax. Of these about 150,000 white men and 15,000 colored men have estates to be settled. Let us say that there are 35,000 women with estates in their own names. There are about 200,000 people out of a population of about 2,800,000 that have estates that will call for settlement according to law.

To the question, "Are there estates to be settled?", the answer is, "Yes, there are 200,000 estates in North Carolina to be settled sooner or later at the rate of over 6,000 a year."

Wills Being Made

Dismiss for the moment the 15,900 adults who died last year without estates and consider the 6,100 who died with estates. It would have been useless, of course, for any one of the 15,900 to have made a will; but every one of the 6,100 should have done so.

Of the 6,100 who died with estates, 1,690 are being settled by executors and 4,410 by administrators. A few more than the 1,690 may have left wills, in that some of the wills failed to name executors and in others the executors named failed to qualify and the court had to appoint administrators with the will annexed. The 4,410 may be slightly more than the number of estates without wills in that the courts have appointed some administrators to bring personal injury suits for the next of kin of decedents who had no estates other than claims for damages for wrongful death.

If these figures, however, are substantially correct for the number of people with estates leaving wills and the number not leaving wills, the fact, stated in another way, is that 26 out of every 100 people with estates have made wills and 74 have not. If there are 200,000 people in the State with estates, 54,000 of them have made wills and 146,000 have not done so. There are 146,000 people with estates who have not yet shown any will-consciousness.

To the question, "Are people making wills?" the answer is, "Yes, about one in four; there are nearly 150,000 people in North Carolina with estates who should make wills and have not yet done so."

Trust Companies and Banks as Executors

Of the 1,690 people who died last year leaving wills 77 had named a trust company or bank as executor or co-executor. About 5 people out of 100 who made wills had named a corporate executor. If this ratio seems small, consider that there are about 800,000 individuals eligible under the law to serve as executors to less than 600 trust companies and banks. Consider, too, that only a small number of the 600 are actually seeking or even accepting appointments as executor. Of the 93 trust companies in the State only 28 report a trust officer and 12 of the 28 trust officers hold their trust officership in connection with an office—usually a cashiership—in the banking department. As a matter of fact, one trust company received 26 per cent of all the appointments to executorships in 1927.

To the question, "Are the people naming trust companies and banks executors under their wills?" the answer is, "Yes, in far greater proportion than the number of trust companies and banks bears to the total number eligible to serve as executor, and the trust companies and banks that are actively engaged in trust business are receiving a gratifying number of appointments."

Probate Courts Appointing Trust Companies and Banks Administrators

Of even more significance than the fact of people with estates naming trust companies and banks executors under their wills is that of probate courts appointing trust companies and banks administrators. In 1927 trust companies and banks were appointed administrators for 136 estates, nearly twice as many as the estates in which they qualified as executors. It must be noted, of course, that these are 136 administratorships for 4,410 estates without wills as compared with 77 executorships for 1,690 estates with wills. All the same, these 136 appointments by the court are quite as significant as the 77 appointments by the testators. The 136 appointments to administratorships indicate that the probate courts are, themselves, disposed to name trust companies and banks to settle estates and also that the heirs and next of kin are disposed to use the services of trust companies and banks even when their ancestor failed to do so, for in nearly every case some individual who is qualified to serve as administrator must renounce his right to qualify before the court is at liberty to appoint a trust company or bank.

This further fact is worthy of note: An appointment as executor under a will is made before, sometimes years before, the estate is ready for settlement; whereas, an appointment as administrator by the court is made only after the estate is ready for settlement. Analysis of the ages of 200 testators that have named a certain Southern trust company executor reveals that the average age of these testators is 44 years, and the life expectancy of a person aged 44 years is 25 years. Some of the estates covered by these wills will be for settlement within a short while but the settlement of most of them will be postponed for several years. While the older trust companies alone are waiting for the maturity of the wills in which they were originally named executors, perhaps 25 years ago, the younger trust companies are sharing with them in appointments as administrators of estates that have lately matured. The popularity of corporate trust service is quite as much in evidence by court appointments to administratorships as by testamentary appointments to executorships.

Corporate Trust Service is Cheaper

There is still abroad in the land the impression that the cost of settling an estate is high at best and that the cost of settlement by a trust company or bank is beyond the reach of any but the very wealthy. Somehow the impression persists, despite constant refutation, that it costs 10 per cent to settle an estate, or, as it is usually expressed, 5 per cent each way—5 per cent of the estate as it is received by the executor or administrator and 5 per cent again as it is disbursed in the payment of debts and distributed among the beneficiaries. Many who would like to have their estates settled properly are deterred by the reputed cost of the service.

Under the laws of North Carolina, the clerk of the superior court, which is the probate court, is authorized and directed to allow an executor or administrator, whether an individual or a trust company or bank, a commission of not exceeding 5 per

cent of the amount of receipts and expenditures, after taking into consideration the trouble and time expended in the management of the business. Analyze this statement of the law. "Receipts" do not include real estate; the only instance in which an executor or administrator receives a commission on real estate is where it is necessary to sell real estate to make assets to pay debts and in the event of such a sale the executor or administrator receives a commission on only the amount actually applied in the payment of the debts. "Expenditures" do not include the amounts of money or the properties distributed among the beneficiaries under the will or among the next of kin where there is no will; they include only the amounts expended in the payment of debts, taxes, and other charges against the estate.

The actual difference between the 10 per cent that the executor or administrator is supposed to receive and the per cent that he actually receives is revealed in the analysis of 200 North Carolina estates, 100 of which were settled by individuals and 100 by trust companies and banks. These 200 executors and administrators actually received 2.56 per cent of the gross value of the estates as appraised for the payment of inheritance taxes. Even though they may have received the maximum allowance of 5 per cent of all receipts and expenditures, the receipts of personal property constituted such a small portion of the gross estate and the expenditures for debts, taxes, and other charges constituted such a small portion of the amounts paid out that the actual percentage of the estate consumed by the administrators' and executors' commissions was only a fourth of what it is commonly supposed to be—2.56 per cent instead of 10 per cent.

Comparison of Costs

One sometimes hears the statement, "I should like to have my estate settled by a trust company or bank, but it costs more than I can afford to spend." In the cost of settlement of an estate, the executor's or administrator's commissions, the court costs, and the attorneys' fees, are to be included. We know of three recent studies that have been made of the comparative cost of having an estate settled by an individual and of having it settled by a trust company or bank—two in North Carolina and one in Ohio. These studies were based upon records of estates such as are on file in the offices of the probate courts and open to inspection as public records. In the first, 70 estates settled by individuals were compared with 29 settled by trust companies and banks, in the second, 45 settled by individuals with 19 settled by trust companies and banks, and in the third and latest, 100 estates settled by individuals with 100 settled by trust companies and banks.

In each of these, the cost of settling the estates by trust companies and banks was distinctly less than that by individuals. The results of the studies did not reflect other and even greater economies and savings in the way of better business management, more advantageous conversion of securities, and fewer and smaller expense items charged against the estate by trust companies and banks than by individuals, the last difference being due to the fact that trust companies and banks absorb in their overhead expense items that individual executors and administrators may properly charge against the estate. Nor does this take into account that some of the trust companies and banks have a graduated schedule of commissions for serving as executor or administrator that is less than the statutory commissions actually allowed individuals by the probate courts. One may state with entire confidence that it costs less, not nominally less but substantially less, for one to have his estate settled by the most experienced and responsible trust company or bank than by the most inexperienced and irresponsible individual. Actual dollars-and-cents saving is one of the inducements—though not the principal one—to men to make wills and name trust companies and banks their executors.

South Not Will-Conscious

If North Carolina is a true cross-section of the South and if the will-consciousness of the people of North Carolina as revealed in these statistics truly reflects the will-consciousness of the people of the South as a whole, certain conclusions irresistibly force their way to the front.

The first is that the South is not yet will-conscious. To be will-conscious one must have the same attitude towards making a will as a business man has towards paying his debts and a family man towards supporting his wife and children. He must take for granted that it is a part of his duty as a citizen, as a business or professional man, and as a head of a family to make a will as soon as he has any estate and any dependents and, having once made a will, thereafter to keep it up-to-date. For a community to be will-conscious it must have a pervading atmosphere in which its citizens will take for granted that making a will is part of their day's work the same as paying their taxes or educating their children. In such a community for a man with an estate to die without a will would occasion as much surprise and unfavorable comment as for him to plead the statute of limitations against an honest debt or make a fraudulent conveyance of his property to defeat the claims of his creditors. In such a community dying without a will would be something that no self-respecting man would dare do.

Subjected to such a test, the South is not will-conscious. So long as 74 people with estates out of every 100 who die do not leave wills, the community in which they live and die cannot be said to be will-conscious. By the same token, it is doubtful if any section of the country is yet will-conscious.

Duty to Develop Will-Consciousness

The second conclusion is that the trust companies and banks of the South should take the lead in making the South will-conscious and must take the lead if it is ever to become will-conscious. A trust company or the trust department of a bank is the only

organization whose business it is to encourage and help people to make wills. A commercial banker will advise his depositors to make wills for he realizes the risk of leaving estates to be settled by administrators who have no chart to guide them, but he stops with advice. A life underwriter will advise his clients to make wills, for his business of creating estates has made him appreciate the importance of conserving estates as well, but he, too, stops with advice. A minister will advise his parishioners and a physician his patients to make wills for they both realize the uncertainties of human life, but their advice is only incidental to their professional ministrations. But it is a trust officer's business, a part of his daily duty, not only to advise people to make wills but also to help them make wills—help them, not to the extent of usurping the lawyers' function, but in the way of working out provisions that will actually accomplish what they have their heart set upon. The modern trust company—through its advertisements, through its booklets, through its solicitations, through its organized efforts—has done far more than any other agency to make the whole country will-conscious. But, as is to be seen, its work is but just begun.

The Main Channel

So long as three-fourths of the people with estates do not make wills and so long as 95 per cent of those who make wills do not name trust companies or banks their executors, we cannot afford to let other branches of trust service distract us from the original and still the most important field. This statement is not made in disparagement of efforts to develop corporate trust departments to serve as registrars and transfer agents and trustees under bond issues and in other capacities for corporations; but it must be admitted that the field of trust service to corporations in all but a very few of the largest southern cities is and for a long time to come will be severely limited. The larger opportunities for such service lie in metropolitan centers. Nor is this statement to be construed as one in disparagement of efforts to secure living trusts and life insurance trusts and agencies and custodianships. Living trusts are serving a worthy purpose; but the number of men who can or should create them is and always will be comparatively limited. Life insurance trusts are equally commendable, but they are supplements to rather than substitutes for wills. As the wealth of the South changes from tangible to intangible properties, from lands and goods to stocks and bonds, agencies and custodianships and other similar financial services will be in demand. But until the use of trust companies and banks in the settlement of estates becomes more universally adopted and more firmly embedded in the consciousness of the South, let us keep clear in our minds the difference between the main channel and the tributaries of trust service. Let us push with all vigor the creation of living trusts but not overlook the fact that property put in trust is only a part of the creator's general estate and that, with few exceptions, every one who creates a trust should also make a will. Let us encourage men to create insurance trusts, for by so doing we are rendering them and their beneficaries good service, but let us be mindful of the fact that the insurance trust covers only a portion and, often, a minor portion of the insured's total estate and that, with few exceptions, for every trust agreement there should also be a will. It is advisable always to keep first things first, and the first thing in corporate trust service in the South is executorships and trusteeships under wills.

Cooperation Among Trust Companies and Banks

The third conclusion is that the South cannot be made will-conscious unless the trust companies and banks of the South engaged in trust business cooperate with one another. Much as the trust companies and banks of the South, working each in its own field, may do to make the South will-conscious, they must, in the absence of cooperation with one another, leave much of the field uncultivated. Though there are 611 trust companies in the Southern states, only 130 of them report a trust officer. Though national banks have trust powers, they are still new to the business. If every trust company and bank in the South active in trust business had in its file the will of every customer with an estate there would still be a vast majority of the people of the South unserved in this respect. Only by working together in adopting approved methods, in insisting upon high ethical standards, in discouraging from entering the field those who would lower its standards, in welcoming and assisting all who come to render real trust service may we hope ever to make the South will-conscious.

Developing a Will-Conscience

Making the South will-conscious is not an economic problem alone; it is a social opportunity as well. Roger Babson says: "We are striving and ever slaving to lay up properly for our children, when statistics clearly show that the more we lay up for them the worse off they are going to be. If statistics demonstrate any one thing, they demonstrate that the less money we leave our children, the better off they will be, not only spiritually and physically, but also financially." This may be true, but it need not be true. There is no inherent reason why inherited wealth should be a curse. Nor will it be a curse if the father during his lifetime teaches his children by precept and practice the proper attitude towards wealth and at his death leaves a will providing for the proper settlement of his estate and for its administration in such a way as to serve as a stimulant, not a sedative, to the ambitions and aspirations of his children. As the South grows rich in material possessions, it must give attention to the proper passing of property from generation to generation. As it develops a will-consciousness it must at the same time develop a will-conscience under the influence of which it will not only make legally sound wills but will make socially good wills.

Discussion

CHAIRMAN CHAPIN: Gentlemen, this wonderfully searching and overwhelmingly convincing argument deserves some comment. What have you got to say about it?

J. H. GREEN: I should like to ask Mr. Stephenson if they have, in North Carolina, such an office as public administrator.

MR. STEPHENSON: Yes, in each county.

MR. GREEN: In spite of that the probate court appoints so many trust companies administrators?

MR. STEPHENSON: Yes.

MR. GREEN: Doubtless the same ratio would hold good in Georgia.

H. V. CONDICT (Trust Officer, The State Bank of Orlando & Trust Company, Orlando, Fla.): A recent survey we made in Orlando, of court records, bears out some things Mr. Stephenson said. Not many estates have been closed. We were not able to determine the comparative figures between corporate executors and individuals. We were able to determine that administration costs amount to about two per cent less in favor of executors, as against administrators, while the time of closing estates is nearly one year shorter in favor of executors. Those things are very pertinent in talking to prospects because they all want to know what the administrator costs, and how long it takes to close an estate.

R. G. STEPHENS: There is an additional factor that should always be presented to the prospect, in that the corporate executor makes a charge for its service as executor, and does not charge for the services given by the various experts employed by an institution and that the individual in nearly every case employs outside experts at the expense of the estate. The accumulative charges of those experts, in addition to his services as individual executor, amount to about three times the charge that the modern trust company, with its organization of experts, would charge for that service.

Tax Laws Greatest Barrier

C. W. BAILEY (President, First National Bank, Clarksville, Tenn.): I consider the greatest barrier to the bringing about of will-consciousness in the South is the matter of taxation. Many of our southern states operate under taxing laws which were created under constitutions adopted fifty or more years ago. Property is taxed under general property tax laws, where personal property pays the same tax as real estate.

There are just a few southern states which have changed their taxing laws and they have profited very materially in the development of trust resources. Not until the states of the South place themselves on a par with the states of the East and North, in enacting modern tax laws, will the states of the South ever realize their real rank in the creation of trust estates.

At the present time I know of an estate of $1,000,000 which went out of Nashville, another estate of $1,000,000 which went out of Memphis and an estate of $500,000 which lately lay, in the form of securities, in our own laps and it went away from Tennessee because Tennessee's taxing laws would not permit that estate to stay there. I know of another case of a very well-thinking man in eastern Tennessee, who has just moved his legal residence to a sister state because he can live within the confines of that state and be honest with himself about his property. I know of one trust company in the state that has gone absolutely into the non-taxable basis, that is, the securities of every trust estate it holds are converted into non-taxable securities.

We, in Tennessee, are endeavoring to create an organization which will bring definite sentiment in favor of the modernizing of our tax laws and I say to you men who come from the states of the South, when you go home, look up your taxing laws, and bear in mind the fact that when you educate people to the worth of trust company services, you are at the same time educating them as to the taxing laws of your state and when they find out what the taxing laws of your state are, you may find you are soliciting business for a trust company in Pennsylvania or New York.

R. G. STEPHENS: I think that is a very splendid point this gentleman has brought up. I happen to know of a number of very large estates in Georgia aggregating many millions of dollars, that have, in the past two years, gone out of the state of Georgia and gone to New York, where, under the peculiar system and peculiar laws enforced in that state, a non-resident trust can escape all local taxes. Under the laws of New York State there is an income tax, but that income tax does not apply to the income of non-residents, except as to salaries and rents derived wholly within the state of New York. Stocks, bonds, and cash are specifically exempt under the New York law, from any tax except the income tax. The result would be that a citizen of Georgia could place a trust fund, say of $1,000,000 with a New York bank, and his beneficiaries, being non-residents living in Georgia, would pay no income tax to the state of New York on the income of that trust and the New York trustee would be required to pay no taxes whatever on the property. If the trustee of the same estate is in Georgia he must return, under the laws of Georgia, all of the taxable property for local taxes, and those local taxes aggregate something like three per cent of the principal each year. It places a corporate executor, or bank, or trust company in Georgia in a very unhappy position.

B. W. BARNARD: North Carolina is trying to meet this problem as you have here in Tennessee. Instead of taxing personal property on the same basis as real estate, there is proposed for vote of the electors in November of this year, a constitutional amendment permitting the legislature to classify intangible personal property, giving to it different rates. We cannot have too much hope that the

amendment will be passed because it has been proposed before. I hope that everybody in New York will look into the question and use his influence toward spreading information about the proposed amendment, and I hope the others from other states will watch to see what happens to us in November to get us out of this bad fix.

J. H. GREEN: Georgia has been trying for ten or twelve years to revise the tax law and every legislature has a committee appointed, but they never seem to get very far. If the trust companies and banks and other institutions all over Georgia would take it upon themselves to put on a campaign of education, they might accomplish it, but it is a very difficult task. You can start right here. Let's carry this idea home. It goes far beyond trust estates. There are millions of dollars in Georgia that would be loaned out on real estate property, if our tax laws were more liberal. But as it is, they get six or seven per cent interest and pay three or three and one-half of it in taxes. Nobody is going to invest money in that way. A man comes to me and says, "What about loaning money on real estate, is it taxable?" "Yes, it is taxable the same as any other property." . . .

Before adjourning, the Conference passed a resolution to the effect that, inasmuch as the First Southern Trust Conference had proved to be a distinct success, it was the desire of the southern trust men that it be continued as an annual event and that the Executive Committee of the Trust Company Division of the American Bankers Association be respectfully requested to arrange another conference a year from now.

(Adjournment)

The President's Remarks at the Banquet

By THOMAS R. PRESTON

President, American Bankers Association and President, Hamilton National Bank, Chattanooga, Tenn.

THIS is the first regional trust conference that has ever been held in the South. Nine states are represented here, and every trust company and nearly every bank doing a trust business has representatives at this meeting, and in addition to that we are particularly fortunate in having the President and Vice-President of the Trust Company Division of the American Bankers Association and many outstanding trust men throughout the country.

The American Bankers Association is in a sense the research department for all the banks and trust companies of this country. Several hundred thousand dollars per annum is spent in these various activities. I am not soliciting membership for the American Bankers Association because every bank represented here is a member; but out of this one Division, which is one of the great outstanding divisions of the American Bankers Association, any institution that cannot annually make many times the amount of its dues from the Association in the knowledge and information they can gain, I don't believe that bank or that institution is on the job.

The conservation of estates after death is the chief function of a trust company. This Division of the Association not only stands for sound principles and practices and methods, but it also stands for sound legislation, and that is the reason why all of us—and I in particular—are opposed to inheritance taxes of any kind except in times of war whether levied by the government or by the state. I think they are economically unsound if not morally wrong. I don't think it is right for any government to take from a man's estate at death what no government has ever attempted to take during his life. One of the finest impulses of human nature is the one that prompts men to save and to sacrifice and accumulate in order that those dependent upon him may have a competency, and to take a portion of it, often at a period of shrinkage is, to my mind indefensible. I don't know of a trust company in this country that isn't opposed to an inheritance tax. Those are the kinds of things we stand for.

The real reason why a regional conference has never been held in the South before is because it has never been needed down here. Up until about twenty-five years ago we have been so poor and so hard up and "in such a tight" as the country man expressed it, that we did not need the service of trust companies; but today that is rapidly passing. For the first time in the life of all of us I might say the South is getting rich, and it is even difficult for us to adjust ourselves to those new conditions.

I presume manufacturing and banking is about as correct a yard stick to measure the wealth of a community or a section by as anything we could suggest. Something less than $2,000,000,000 is invested annually in manufacturing enterprises throughout this country, and more than forty per cent of that (that is about the average of recent years) is in the South.

This city, I think, is typical. I can remember, myself, when there wasn't a single textile industry in this city and we now have fifty-three, some of them quite large. The trouble now is that industry and probably some others will be overdeveloped.

In the matter of individual bank deposits, seventeen years ago the total individual deposits of all the banks in the South was about $1,800,000,000, and in seventeen years that has gone to between $7,500,000,000 and $8,000,000,000 multiplied by four, so we will need the advice and the assistance of this Association and of this Division.

We are very glad indeed you have honored us with this conference. I know it has been helpful, and I want to say in behalf of the Chattanooga Clearing House, Mr. McLucas and Colonel Perkins, we are delighted that you gentlemen have honored us with your presence, and we trust the remaining day will be as profitable and as pleasant as this day has been.

The Importance of the Trust Department in our Financial System

By JAMES H. PERKINS
President
Farmers' Loan & Trust Company, New York, N. Y.

The whole social and industrial structure of the country may be affected by the conduct of the billions of dollars of other people's money in the care of trust companies and banks. The amount of property entrusted to the older trust companies is so many times greater than their deposits that the deposits look small in comparison.

The trust business is a serious and complicated business and anyone who undertakes it lightly is playing with dynamite.

Skilled and responsible men are needed—men with thoroughly honest mentalities—men who know the law, the security market and values underlying securities, how to render accountings and all of the hundred and one things involved in the work. The danger the United States has before it today is its rapid wealth and if we do not maintain the highest, cleanest and purest ideals in the conduct of that wealth, the wealth itself is going to sink us.

The men who are going to guide things rightly are the trust men of the United States.

THE trust business today can be compared with the condition of the life insurance business twenty years ago. The insurance figures have grown many, many hundreds of millions during the last twenty years, and I believe the trust business is going to grow in just that way during the next ten, fifteen or twenty years. Whether it grows rightly is going to depend largely upon the way in which we all handle the responsibilities that fall upon us. Not only has the number of trust companies in the United States grown enormously, but in 1918, under an amendment to the National Bank Act, national banks were given the power to go into the trust business, so that within a comparatively few years the agencies for carrying on this business were multiplied many fold.

The trust business is a serious and complicated business and is not to be undertaken lightly. I have seen it happen in more than one case where a man who was primarily a commercial banker would say, "This trust business seems to be growing. We will put in a trust department." He calls some likely young fellow in the bank and says, "Bill, we are going to put in a trust department and you are going to be at the head of it; go to it." That is playing with dynamite. I have been a national banker and I have been a trust company officer, and I realize that the responsibilities and the complications involved in the trust business are larger than in any other phase of financial life.

In the first place, the trust business involves not only the care of estates, living trusts, etc., but it involves the complications that come into corporate trusts. The corporate trust business is going to be greater particularly in the South where manufacturing and industrial activities are growing as never before. It is a difficult and complicated thing and a responsibility for which you must prepare.

Skilled Men Needed

Then comes the question of being able to get skilled men to do this work. They have to be men who will take responsibility—men who will study and fit themselves for the job. They have to know the law. They have to know the security market, not simply by looking at it in the newspaper but by understanding the fundamentals and the values that are back of these securities. They have to know how to handle the customers. They have to know how to probate wills. They have to know how to render accountings and all the hundred and one different things that come into that work.

Those engaged in trust work must remember that in no business in the world are they going to be held to account as in this business. Do the best they can, have the best help they can, and with the greatest skill surrounding them, they are going to make mistakes and are going to have trouble, I can say, because I have had plenty of it. It is not any fun to make a mistake when dealing with a man's estate or a trust. It is a mighty serious business. A man has put the care of his family into your hands and you are not only humanly responsible but legally responsible. Any trust company that mismanages its estates can lose its reputation in no time at all.

The statement of one of the big trust companies will show it has so much in deposits, so much capital and so much surplus and we say, "That is a splendid showing. These fellows have an enormous capital and surplus in comparison to their deposits."

But we do not see any statement of the trusts in their care and for which they are responsible and liable. The amount of trusts in the older trust companies is so many times greater than their deposits that the deposits look like nothing at all alongside of them.

Doing the Investment Job Right

One of the most difficult of the skilled jobs is that of the investment man. It needs more skill, more study and more care than it ever did before in the history of the world because we are the bankers of the world, and the situations that we must study are not confined to our locality, or even to our country, but they cover the whole world. It requires men of careful training, men of studious habit with thoroughly honest mentality to do this work. It is not a job for the man who watches only the ticker. If one is going to do the investment job right he has to know values upon which he is investing. Only when your values are right and your management is right are you free from worry when some security temporarily rises ten points or falls ten points.

There is another activity and that is the custodian department. All of us have custodian accounts which mean safe-keeping accounts for living men and women, but they mean a good deal more than simply safe-keeping. They mean advice and guidance to these people, and the securities involved run into enormous figures. It is necessary to develop ways of taking care of such accounts on a large scale.

In connection with this custodian work, I want to mention one thing which is very important: A bank or trust company should not, for the sake of building business, undertake a lot of work and do a lot of services for which it is not adequately paid, because if it once starts that, it keeps piling up on it and the first thing it knows it wakes up and finds that it has to have an organization that it can not support, and the competition in this respect is very bad.

Rapid Wealth of Today

Because of the constant requests of our customers, we have organized a little investment trust of our own which we allow only our own customers to join. We say to them, "Here is an investment trust; you can take such-and-such part of it if you want to. We do not guarantee it. If the security market goes down, investments in the fund will go down too, but we believe on the whole that the fund, watched by a group of trained men, in the long run has a better chance of giving a more satisfactory result than the average individual gets." That is one service we have thrown in. I expect to see a great many other people do it, too. I think others have already done it.

Having in mind the enormous total of trust responsibilities, I can picture in my mind the day not very far distant when the power of good and evil in our industrial life in this country is going to rest very largely in the hands of the trust companies, and when I say trust companies I mean the trust departments of national and state banks and trust companies. I think we ought to contemplate that very seriously when we consider that we have in our hands billions of dollars of other people's money to take care of, and that the conduct of that trust affects not only the people who own this property, but the whole social and industrial structure of the country. It must make any man feel that he must act wisely and as fairly and as honestly as man possibly can.

The danger the United States has before it today is its rapid wealth. We have become rich beyond the dreams of any country in the world, and if we do not maintain the highest, cleanest and purest ideals in the conduct of that wealth, the wealth itself is going to sink us, and I believe the men who are going to guide things rightly are the trust men of the United States.

I believe that the younger men who are going into this work today can visualize the greatest interest of life that can come to any group of young men, and the greatest responsibilities. If they will hitch their chariots to the stars, if they will keep their principles fine, their efficiency good, and their judgment sound, they are going to have more to do with the permanent happiness and permanent leadership in this country than any group of men that are coming along in the world today, and they are going to have more real leadership for good in the world than any group of men, I believe, that has ever come up in the world.

(Adjournment)

STATES INCLUDED IN THE

First Southern Trust Conference

Alabama	Louisiana
Florida	Mississippi
Georgia	Tennessee
Kentucky	North Carolina

South Carolina

CHATTANOOGA CONFERENCE COMMITTEES

General Committee

J. P. Hoskins
President, First National Bank

W. A. Sadd
President, Chattanooga Savings Bank & Trust Company

C. M. Preston
Vice-President, Hamilton National Bank

E. Y. Chapin
President, American Trust & Banking Company

J. E. Harris
Cashier, Hamilton Trust & Savings Bank

Committee on Arrangements

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Manager, Clearing House Association

W. E. Tomlinson
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J. V. Holdam
Asst. Vice-President, Chattanooga Savings Bank & Trust Company

Bradley Currey
Cashier, American Trust & Banking Company

T. R. Preston, Jr.
Asst. Cashier, Hamilton National Bank

D. B. Harris
Vice-President, Hamilton National Bank

SECOND SOUTHERN TRUST CONFERENCE

Atlanta, Georgia, April 19-20, 1929

TRUST COMPANY DIVISION
AMERICAN BANKERS ASSOCIATION
NEW YORK

The Conference Addresses

The Opportunity for Trust Business in the South . . . Eugene R. Black
Citing figures which strikingly illustrate the growing wealth of the South and the development of facilities for the conservation of that wealth. *Page* 7

Proper Policies Governing the Trust Department . . . . M. P. Callaway
Emphasizing the fundamental principles upon which the success of a trust department is based. *Page* 9

The Immediate Problems of a New Trust Department . . . . E. R. Farris
An outline of the first steps to be taken in organizing a trust department. *Page* 20

The Development of New Business . . . . . W. C. Bowman
A presentation of the direct and indirect methods of selling trust services. *Page* 27

Personal Solicitation of Trust Business in a Small Community . . C. W. Bailey
Narrating how one trust company in a small southern community instituted the personal solicitation of trust business with gratifying results. *Page* 31

Obtaining Trust Business Through Personal Representatives . . Thoburn Mills
An exposition of the technique of successful trust salesmanship. *Page* 36

The Pool Mortgage System . . . . . G. Fred Berger
Setting forth the advantages of a method by which small balances in trust estates may be invested and a maximum return to the beneficiaries assured. *Page* 42

How to Develop the Life Insurance Trust in the South . Leslie G. McDouall
An outline of the methods used in promoting the sale of insurance trusts over a five-year period and the results obtained. *Page* 48

Cooperation with the Bar . . . . . Robertson Griswold
An analysis of the factors which have contributed to disturb harmonious relations between lawyers and trust companies and pointing out the advantages of an entente cordiale. *Page* 56

How to Handle the Registration and Transfer of Securities . . David P. Condon
A discussion of the distinction between the duties of the registrar and the transfer agent and indicating how the possibility of heavy losses can be circumvented. *Page* 64

The Administrative Side of Trust Work . . . . . F. P. Spruill
Describing the essential records and books of account needed for the proper administration of trust work and emphasizing the importance of the human equation in dealing with beneficiaries. *Page* 69

BANQUET

Safeguarding Business Through Life Insurance Trusts . . . John A. Stevenson
Showing why the value of the business life insurance trust has only comparatively recently been recognized and predicting its vast future possibilities. *Page* 72

THE SECOND SOUTHERN TRUST CONFERENCE

THE practical phases of the administration and development of trust business were emphasized in the program of the Second Southern Trust Conference which was held in Atlanta, Georgia, April 19-20, 1929.

That the Southern Conference is destined to become an annual event was evidenced by the fact that the Second Conference was attended by an even larger and more enthusiastic gathering of southern trust men than signalized the first Conference held the previous year at Chattanooga, Tenn.

Seventy-five different cities and towns were represented at Atlanta including all the larger centers in the South.

The 1928 Conference, through its program, dealt largely with the fundamentals of trust work and the speakers were all drawn from other sections of the country that were older and more experienced in the exercise of trust functions.

At the 1929 Conference, on the contrary, five out of the eleven speakers were Southerners, three of whom being the Presidents of their respective institutions and possessed of practical and successful experience in developing trust departments in their various communities.

THE Conference dealt first with the proper policies and immediate problems of the new trust department. The necessity of securing the highest type of man to head the trust department, of providing him with necessary assistants and giving him one hundred per cent. cooperation from officers and directors, was particularly emphasized, as was the importance of having a proper investment organization and an adequate system of records and accounting. The value of adhering to uniform fees and maintaining harmonious relations with attorneys was stressed, and more than one speaker emphasized the point that the new trust department could not be expected to pay a profit before several years had elapsed.

The problem of how to get new business was next taken up by the Conference and out of the wealth of experience of the various speakers, there were revealed a number of direct and indirect methods of selling trust services; definite experiences in successfully developing the personal solicitation of trust business in a small southern community; specific methods used in selling the life insurance trust in a larger northern city; and the proper technique for bringing a sales interview to a successful conclusion.

NOT the least helpful contributions to the program were: a detailed description of the pool mortgage system by which small balances of trust funds are kept invested at a maximum return to the beneficiaries; a discussion of the respective duties of the registrar and transfer agent; and a thorough analysis of the administrative side of trust work.

Other features of the Conference were: a comprehensive exhibit of trust advertising, including a number of advertisements and booklets on the life insurance trust; and a demonstration of how to set up a trust account by James W. Allison, Trust Officer, First and Merchants National Bank, Richmond, Va. Mr. Allison was assisted by J. G. O'Brien, Trust Officer, Commercial National Bank, Shreveport, La., and a complete set of the forms used by Mr. Allison was given to each of those present.

Throughout the Conference, a high note of responsibility was sounded, and in all of the discussions there was evident the keen desire of the southern trust men to maintain the highest of standards and to equip themselves worthily for the stewardship that was rapidly becoming theirs as a result of the growing wealth of the South.

THE SPEAKERS *and Something of Their Background*

CHAS. WM. BAILEY

was born in Clarksville, Tenn., April 19, 1884. He was educated in the Public Schools of Clarksville. After working as a stenographer for the American Snuff Co. and later in clerical work with the Clarksville Ice & Coal Co., and local representatives of Italian Tobacco Regie, he entered the First National Bank of Clarksville as Assistant Cashier in 1904. In 1908, he was appointed Cashier and in 1920 elected President of that Bank. He was one of the organizers of Southern Trust Co. in 1910, was its first Cashier and became its President in 1920. He is also President of the Investment Trust Corporation of Clarksville, Chairman of the Executive Council of the Tennessee Bankers Association, and a member of the Tennessee Tax Commission.

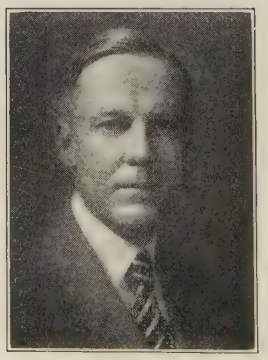
LESLIE G. McDOUALL

was born in Buffalo. His first business connection was with the Ed. A. Woods Agency of Pittsburgh, Pa. He was next with the Bank of Pittsburgh, N. A., and in 1909 became connected with the National Newark Banking Co., Newark, N. J. In Nov., 1910, he accepted a position as bookkeeper in the Trust Dept. of the Fidelity Union Trust Co. After serving through various positions in the Trust Dept., he was appointed Asst. Tr. Off. in 1921 and elected Associate Tr. Off. in 1929. He has been a member of the Insurance Trust Committee, Trust Company Division, A. B. A. since its organization, and is strongly identified with the cooperative movement to bring about joint life insurance and trust company service.

MERREL P. CALLAWAY

was born in Mitchell Co., Ga., Nov. 26, 1872. He received the degree of LL.B. from Mercer Univ., Macon, in 1898 and entered the banking business. He was admitted to the Georgia Bar and practiced at Macon 1901-10. He was special counsel for railroads before the Interstate Commerce Commission, Washington, D. C.; President of the Continental Trust Co. and Vice-President of the Fourth National Bank, Macon, 1918-19. Since 1919, he has been Vice-President in charge of the Trust Department of the Guaranty Trust Co., N. Y.

He is a director of a number of corporations, and one of the organizers and for two years President of the Corporate Fiduciary Association of New York City.



ROBERTSON GRISWOLD

was born April 13, 1884, in Baltimore, Md. He received his college education at Johns Hopkins University, and subsequently graduated from the law school of the University of Maryland. He engaged in the practice of law in Baltimore City for ten years. Upon his return to Baltimore after the World War, he was associated with the investment banking house of Alex. Brown & Sons until 1921, when he was elected Vice-President and Trust Officer of the Maryland Trust Company. He has been Chairman of the Committee on Cooperation with the Bar of the Trust Company Division, American Bankers Association, for several years.

THE SPEAKERS *and Something of Their Background*

G. FRED BERGER

was born in Buffalo, N. Y., on Sept. 2, 1892. He engaged in the banking business Aug. 30, 1911 and after being connected with several banks in Buffalo, N. Y., was later Secty.-Treas. of the Lackawanna Trust Co. just outside of Buffalo. In 1917, he was appointed a Bank Examiner by the state of New York, serving for seven years. In 1924, he became associated with Lybrand, Ross Brothers & Montgomery in their Bank Examination Division in Philadelphia. In 1925 he was elected Treasurer of the Norristown-Penn Trust Co., Norristown, Pa.

Mr. Berger is an active member of the American Institute of Banking, being an Institute graduate and a past president of Buffalo Chapter. From 1918 to 1924, Mr. Berger was a Lecturer on Bank Organization and Administration at the New York Chapter of the A. I. B., being the author of an outline on this subject, which is still in use by that Chapter.

ELZA R. FARRIS

was born in Hancock Co., Ill., thirty-six years ago. He received the degrees of B.S. from Valparaiso University and B.L. from the Detroit College of Law. He taught mathematics in the Blandinsville, Ill., High School until he entered the Huston Banking Co., Blandinsville, as Asst. Cashier in 1917.

During his over twelve years banking experience, he has served as Branch Manager for the Commonwealth Federal Savings Bank, Detroit, Mich., and in the legal department of The Foreman Trust & Savings Bank, Chicago. During his service with the latter, he specialized in the legal phases of probate and trust matters. In 1926, he came to The First National Bank, Laurel, Miss., to head that bank's new Trust Department, as Trust Officer, where he is at present engaged.

THOBURN MILLS

graduated from Ohio State University in 1920 and later started in the banking business with the Corn Exchange National Bank of Philadelphia. Since 1924, he has been engaged in trust development work with the Guardian Trust Company of Cleveland as Assistant Trust Officer.

For the past two years he has served on the Executive Committee, Trust Development Division, Financial Advertisers Association.

WILLIAM C. BOWMAN

was born at Monroe, La., Sept. 14, 1882. He resided and received his public school education in Natchez, Miss. He received a B.A. degree at Millsaps College, Jackson, Miss., and graduated in law at the University of Mississippi in 1905. He practised law at Natchez until 1922, when he accepted the position of Vice-President and Trust Officer of The First National Bank. In March, 1929, he was elected President of the bank to succeed A. M. Baldwin who became Chairman of the Board.

THE SPEAKERS *and Something of Their Background*

FRANK P. SPRUILL

was born in Halifax Co., N. C., Oct. 17, 1881, and moved to Rocky Mount, N. C., in 1898. He worked, first as office boy for the American Tobacco Co. during the tobacco season, then as driver of an ice wagon in the summer and then with Thorpe & Ricks, leaf tobacco dealers. In 1903, he was elected Cashier of the newly organized Rocky Mount Savings & Trust Co. and on Jan. 1, 1916, when a Trust Department was added, he became its Trust Officer also. In Jan., 1929, he was elected President and Trust Officer, having served more than twenty-five years with that institution.

Mr. Spruill has also been Chairman of the Liberty Loan Campaign for Nash County, N. C., in 1918; a Director of the Chamber of Commerce, Country Club and Planters Cotton Oil & Fertilizer Company; Lieut. Gov. of Kiwanis Club; Chairman of Board of Nash Co. Comm. and member of the Comm. on Better County Government for N. C. He is at present a member of the State Board of Equalization of N. C. and President of the Rocky Mount Clearing House Association.

JOHN A. STEVENSON

was born in Cobden, Ill., March 1, 1886. He received the Degrees of B.A. from Ewing College, Ill., in 1908, M.A. from Univ. of Wis. in 1912 and Ph.D. from Univ. of Ill. in 1918.

Starting in the educational field in 1905, he served, successively, as high school principal, Supt. of Schools, Prof. of Education and Director of summer session, Univ. of Ill., 1918-1919; Professor of Education and Director of the first School of Life Insurance Salesmanship at the Carnegie Institute of Technology, Pittsburgh, Pa., 1919-1920.

In 1920, he became 3rd V. P. and from 1921-28 he was 2nd V. P. of The Equitable Life Assur. Society of N. Y. He is now associated with the Penn Mutual Life Insurance Co. as Manager of the Home Office Agency in Philadelphia and as General Agent, New York. He is also a Director of the Garard Trust Co., Chicago; President of the Marketing Executives Society and Co-Editor, Harper's Life Insurance Library.

He is the author of a number of books, including "Selling Life Insurance"; "Problems and Projects in Salesmanship" and "Education and Philanthropy."

DAVID P. CONDON

was born in Dobbs Ferry, N. Y. He has been identified for upwards of thirty years with The Farmers' Loan and Trust Company, one of America's oldest trust companies and the pioneer in Transfer and Registration work. As Registrar, he has for a number of years been the officer in charge of its Transfer and Registration Department.

He has been a member of the New York Stock Transfer Association practically since its inception, and is very active in its affairs. He has also taken an active part in the meetings of the National Tax Conference as a delegate appointed by the Governor of the State of New York, and has been very prominent in movements for tax reform, particularly in the matter of the Reciprocal Tax. He is frequently referred to as the dean of those engaged in transfer and registration work by his associates in that field.

The Opportunity for Trust Business in the South

By EUGENE R. BLACK
Governor, Federal Reserve Bank, Atlanta, Ga.

Trust business depends upon the accumulation of wealth and upon the transmission of that wealth.

While the South is commonly regarded as an agricultural section, in 1927 its agricultural crops were valued at five billion, whereas its manufactured products were valued at twelve billion and its mineral products at two billion. The total wealth of all the products of the South was equal to one-fourth the wealth of all the products of the United States.

These figures show that the South is amassing the wealth upon which trust business depends. It has already gone far in the creation and maintenance of the facilities for the proper conservation and transmission of wealth.

DURING the past ten years, the banking business has changed so rapidly, such swift innovations have come in that it has seemed almost kaleidoscopic in its moves.

We have seen the great question of branch banking approached from every angle and we have seen some of the great banks of the country outstripping in their progress towards branch banking, the old established systems of England and of Canada. We have seen chain banking with all that it means spreading rapidly throughout the United States. We have seen some of our member banks combine with other member banks. We have seen some of our national banks combine with state banks. We have seen some of our member banks, national and state, combine with non-member banks, until the great chains of banking, the great branches of great banks, and the great mergers that have taken place have led us all to wonder, what is the outcome? Where are we drifting? What will be the end of all these innovations in the banking world?

America Financially Sound

Yet a serious man who studies the financial situation in America realizes the progress that has been made in establishing a general reservoir of credit; in providing for the first time in America's history an elastic currency; in putting an impregnable safeguard against a moneyed bank; in the great growth of our industries; in the great progress of our commercial life; and in some of the forward steps of agriculture. It is possible that we have just come into an enlarged age and that the vision we are getting of all these innovations in banking is portending toward a larger, a better, a safer, a more useful concept of the financial situation of America.

There are prophets of evil in the country and there are prophets of good, but I think a man has the right to be an optimist and to believe that in the great forward steps that have been taken in this financial game, America is being led into becoming a world power financially and that in the end, under sane American leadership, and with the wisdom of safe and sane American banking, it will all work to the good of America.

I believe America is financially sound. I believe she has been led by very able bankers into her present position of world prominence in financial affairs and that there is nothing on the horizon today that should alarm us or make us believe that ultimately, after illness has disappeared, and after trips have been made, and after speculation has run its course, that we won't get back in America to a safe and sane financial basis.

Trust business depends upon two things: first, upon the accumulation of wealth, and, second, upon the transmission of that wealth. Trust business in the South has necessarily been retarded by reason of the cataclysm that followed the Civil War.

In 1887, a young Georgian, in speaking before the New England Society in New York, said: "The 'new South' is enamored of a new work. Her soul is stirred with the breath of a new life. The dawn of a fairer day is breaking full upon her face. She is thrilling with the consciousness of her growing power and prosperity."

That was just a few years after the Civil War and the story of the solution of the two problems that the South then faced is now a matter of his-

tory. Those two problems were, first, the negro problem, and, second, the reestablishment of her industrial problem. The first problem, in the wisdom of God, and through the guidance of a sympathetic people, has been solved. The South is ready today to respond to the second problem. It may be interesting to some of you gentlemen, in reference to the accumulation of wealth in the South, to know what the South did in 1927.

Productive Wealth of the South

The South is known as an agricultural section. We are looked upon as one great, white cottonfield, one great, green cornfield, one large potato patch, one large goober section. It is known that we have great fruit potentialities, and yet it may interest you to know that in 1927 the entire agricultural crops of the South had in them a wealth of $5,000,000,000, but in that same year, 1927, the value of the manufactured products of the South was $12,000,000,000, or $2,000,000,000 more than double the value of their agricultural production. And it may interest you to know also that in that same year the mineral products of the South had a value of $2,000,000,000.

So that the products of the South, translated into terms of wealth, in the year 1927, were valued at $20,000,000,000, and in the same year the value of the same products—mineral, agricultural, and manufactured—in the United States was $80,000,000,000. And it would seem to be sufficient answer to her industrial problem to state that in the year 1927 the wealth of all the products of the South was equal to one-fourth the wealth of all the products of the United States, and it may also be interesting to know that the wealth of all the products of the South in 1927 was equal to the total wealth of all the products of all the United States in 1900.

While we are discussing the South and the accumulation of wealth in the South we might take one or two particular instances. I believe it will interest you trust officers to know that North Carolina last year paid more taxes to the United States Government than did any other state in the United States except the imperial state of New York, and the manufactured products of North Carolina in 1927 totaled $1,500,000,000. It should interest you bankers to know that the resources of all the banks in the South at the end of the year 1927 were $10,000,000,000, and that those resources were one-third the total resources of all the national banks in the United States.

These figures illustrate the fact that the South is amassing wealth; that the South is becoming potentially independent; and that the great banking resources of the great banks of the South are able to finance the industry, the commerce, and the agriculture of the South.

That doesn't mean and never has meant that the South wants to be independent of the rest of the nation. She doesn't. The South wants yearningly to be an integral part of the United States, and the South wants its great financial possibilities to be available to the other parts of the United States as they may be needed, just as I say with great gratitude the available financial powers of the rest of the United States, of the North and of the South especially, have played a wonderful part in the rehabilitation of the South and have been a most important factor in the building up of the industry of the South.

You men are interested in the amassing of wealth in order that your trust business may be increased, and I report that the South today is amassing wealth and is prepared, and has already gone far, in the creation and maintenance of a great trust business for the proper conservation and transmission of that wealth.

The Presiding Officers

"THE success of the Second Southern Conference was in no small measure due to the skill and intelligence with which the presiding officers introduced the various speakers, stimulated the discussion and stressed points of importance.

The Conference was opened by Ronald Ranson, Vice-President and Trust Officer, Fulton National Bank, Atlanta, who, as President of the Atlanta Clearing House Association, welcomed the delegates to the city.

The first session was presided over by John C. Mechem, Vice-President of the First Trust & Savings Bank, Chicago, and Vice-President of the Trust Company Division of the American Bankers Association, the second session by Gordon L. Groover, Vice-President and General Trust Officer, Citizens & Southern National Bank, Savannah, Ga., and regarded as a Dean of the Georgia trust officers; and the third session by William A. Stark, Counsel, Fifth-Third Union Trust Company, Cincinnati, Ohio.

Excerpts from their remarks may be found on the following pages: Mr. Mechem, page 26; Mr. Groover, page 41; Mr. Stark, page 55.

Proper Policies Governing the Trust Department

By MERREL P. CALLAWAY
Vice-President in charge of Trust Department,
Guaranty Trust Company of New York

The development of modern corporate fiduciary service is a direct response to an economic need. The first great problem that confronts the Corporate Fiduciary is how to get the business and the second is how to handle the business after it is secured.

In solving these problems, a bank must be willing to spend the money necessary to develop the business and to keep up its efforts over a period of years. The very best type of man that the prospects of business in the community justify, should be secured to head the trust department. Uniform fees should be established and adhered to. There should be an investment organization, or a man, competent to meet and discharge the great responsibilities the fiduciary has in regard to investing trust funds.

In the case of investing trust funds in common stock, where the trustee does not have the protection of statutory authority, the right to purchase common stocks must be clearly given in the instrument, and where so given, the purchase must be confined to stocks of the highest grade, with a record of dividends, and non-speculative in character. The trends and changes in industries and value as they affect those stocks must be carefully watched. Unless adequately equipped to handle such investments, the fiduciary should refrain from making them.

IT is a pleasure and a privilege to me to be with you today. As some of you know, Georgia is my native state. In its hills sleep my ancestors for generations back. The cathedral pines that sung to me as a boy sing over many of them a requiem. To me Georgia is home, and the South my own.

While I am now connected with a trust company in New York, yet my early training was all in a southern town, and my eastern experience is but a continuation and enlargement of what I had had before. So, I do feel that, at least, I am not a stranger to your problems and your conditions. Besides, the underlying principles governing a trust department and the policies that should control it are much the same everywhere.

Departmental Banking

This is the day of departmental banking. It is the day of service. To further that service the concentration in one institution of not only banking but those productive activities which naturally ally themselves with banking has come about. So we see general banking grow and divide itself into domestic and foreign banking. We see the handling of securities for customers of the bank and advice about investments develop into security departments. We see the seeking of advice and help of bankers in the management and settlement of estates, the investment of trust funds, bring into being the idea of trust companies, the establishment of trust departments, and the whole development of the modern corporate fiduciary service. This development is not due to a few men of extraordinary vision and foresight. It was not thought out as an invention to add to the profits of the banking business, although it does all of that. In each instance it is a direct response to an economic need. Corporate administration, corporate trusteeship, has developed with the years to afford better service than had been given by the individual and to fill in a competent manner the place where the individual has so often failed.

But even so, the far greater part of all trust administration is by individuals and not by corporate fiduciaries. The first great problem that confronts the Corporate Fiduciary is how to get the business, and the second is how to handle the business after it is obtained.

An Organization Necessary

To begin with, of course, there must be an organization. Trust business does not come in to any great extent of its own accord and unsolicited, certainly not in the early days of your trust development. It comes as the result of continuous, persistent effort. Where the institution is large enough, there should be a separate department where the entire time and thought of the men engaged should be devoted to trust work. The president and directors should understand that at best the development is slow, and profits cannot be expected for the first few years. These men should be of the very best type that the prospects of business in the community justify. It is much better to have one good man than two or three ordinary, mediocre men. Even in the institutions too small to justify a separate department, or where the possibilities are too limited, if trust business is sought at all, some one officer or capable clerk should by study and training fit himself to intelligently discuss trust and estate matters, and to interest the customers of the bank in turning such business over to it.

I will not attempt to go into the details of how to solicit, how to advertise, how to get new business. Others are on your program for those subjects, but I do say to you that in my opinion unless you do have trained men, unless you do determine to keep continually after the business, unless you are willing to spend money, and to wait patiently for results, you might as well, and perhaps would be better off, not to try for trust business.

Establish and Maintain Rates

In soliciting and accepting business, make it a firm and guiding policy not to cut rates or take business at too low a rate. If there are enough banks in a town to have a Fiduciary Association, form one, and work out proper rates, or if there is a Clearinghouse, make these rates a matter of Clearinghouse rule. If neither is practical, have the Divisions of your State Association, or if no Divisions, the State Association itself, establish rates. But establish rates some way, and stick to them. It costs money and a lot of it to properly handle trust business under modern conditions. Without proper compensation, the necessary service cannot be given, except at a loss. And if there is to be a loss, why take the business at all.

The absurd thing about cutting rates is that generally the business could have been secured without it. I do not suppose that competition is any keener anywhere than in New York with its great number of banks. But that statement applies even there. There is not much really competitive trust business. Most of it comes from customers, stockholders, and friends of the bank. The question of rates is not often controlling with them for they want your bank. Some of them will shop around, but if you hold firm for a fair rate, experience shows that they will more often than not come back, notwithstanding the fact that some weaker brother offers a lower rate. And if they do not come back, would it have been fair and honest to the great majority who have trusted you as to rates, to give the shopper lower rates than you give to them? Besides, let the other fellow have the cut rate business, and his failure or inability to give proper service will finally cure the habit.

Investment Organization

Now I said to you in the beginning that the two big problems in trust development are, first, to get the business and, secondly, to handle it properly after it comes in. The latter is by far the more important of the two. Unless an institution is prepared or intends preparing itself to property handle its trust business, to properly and intelligently dispose of property coming into its hands, to intelligently make and change and look after its investments, it should not attempt to do trust business. Not only does its responsibility and duty towards those for whom it acts require all of this, but for its own self-protection and safety, and to avoid the possibility of serious loss, it should have an intelligent investment policy, with an organization to carry it out.

This does not mean that there must be necessarily an extensive investment staff. In the small bank where the volume is too limited, the expense of such an organization would be prohibitive. But it does mean that in every bank doing a trust business, there must be some one man competent to pass upon and make investments, whose duty it is above all other duties to look after trust investments and to constantly watch the investments after they are made. For it will not suffice to make a good investment and then rest. Along that path, the great danger lies.

We all know the danger of buying a mortgage with careless attention to titles or values when the investment is made, or the buying of bonds or securities that may not qualify for trust investment, or the purchase of stock, if you please, in companies of speculative character. And, therefore, we may be most careful in the original investment, but land values change and mortgages become less secure; bonds perfectly good when bought may, through changed conditions, start on the road to inevitable loss; stocks with a record of dividends and history of increasing values when purchased may for many reasons lose their standing and value, or become complete losses. And all of these changes in conditions and values may be of such character as to cause a court to penalize or surcharge the careless or negligent trustee in case of loss. The responsibilities of the fiduciary are great and cannot be lightly taken. Therefore, I say there should be in every bank doing a trust business, an organization or a man, according to the particular situation, competent to meet and discharge these responsibilities, whose duty it is to do so, with time

enough to do so, and supervision sufficient to see that it *is* done.

I do not mean to say that the investment officer or organization should have full power to invest, sell, and reinvest at discretion. This can very well be done with the approval of the president, or, better still, with the concurrence of a committee of the directors appointed for that purpose.

Keeping Minutes

Another advantage in having someone charged with investment duties is that minutes and memoranda may be kept of what is done in connection with investments, and why. If you ever do become involved in a controversy as to investments or sales, it will become highly important to show the reasons for the action taken. It may be many years after the transaction took place. The parties involved may be dead or inaccessible, and to have in your files a written memorandum of facts inducing the action and showing the exercise of prudent, honest discretion may well save you heavy loss.

Common Stocks as Investments

Mr. Chairman, I have been asked to say something about the kind of investment to make, as well as the policy governing the investing. I am not an investment expert myself. My experience lies more with the question of policy governing investment matters than with the particular security bought and sold.

There is one investment phase, however, now agitating many fiduciaries, and which I have been asked to discuss, and that is the question of common stocks as a trust investment.

Argument for Stocks

The advocates of the investment of trust funds in common stocks say that to preserve the trust funds intact and earn an income for the beneficiaries is not enough; that the estate, itself, should be given the chance of enhancement and the opportunity to share in the growth and prosperity of the country through the purchase of common stocks. They point out that many of the very fortunes in trust were built up through wise and prudent investment in stocks, and that the process should be carried on or originated by the trustee.

Now let me say at the outset that I am not opposed to investment in common stocks under certain circumstances. In fact, I favor the inclusion of common stocks in some classes of trusts, selected with care after analytical research and study, in reasonable proportion to the size of the trust fund, and with due consideration as to whether stocks of any class are proper for the particular trust under review.

Origin of Trusts

To my mind, however, the advocates of investment in stocks for trust funds generally are going dangerously far. It should not be forgotten that the very origin of trusts and trustees was to take care of property for those who for some reason were unable to take care of themselves. The first duty of the trustee was to conserve the principal and to make sure that the incompetent, disabled, aged or immature beneficiary received the income during the entire period contemplated with certainty as absolute as humanly possible. The beneficiary in that case might or might not be particularly benefited by an increase in income, but a loss of the principal would be a terrible disaster. Trusts of that type are governed by the same conditions and necessities today as in the past, and investments should be of the most conservative character.

Business Trusts

There are, however, in increasing numbers, trusts where the maker really desires business administration of the funds placed in trust. Enhancement in principal is sought and the trust is really estate management rather than pure trust. Into such trusts, with such an end in view, stocks properly go. There are other trusts in which from their very nature or size, stocks may be quite desirable, and the trustee might well assume the duty of making such investments. But it is a matter of judgment in each case, and no absolute rule can be laid down.

My discussion here, however, is not so much as to whether stocks are desirable for trust investment as it is to the policy you should pursue in handling them, in case you do so invest.

Shall Individual Trustees Buy Stocks?

Surely no one, however enthusiastic over stock investment, would be in favor of changing the laws so as to permit any and all trustees to invest funds, held for the daily bread of women and children, widows and orphans, the old and the helpless, in any and all stocks. Yet, if *any* trustee is permitted by law to purchase stocks and have the protection of the law in so doing, *all* trustees must have the same right—the individual as well as the trust company, the inexperienced as well as the experienced, the gullible as well as the wise.

Do not overlook the fact that in spite of the great advance of the corporate trustee, that by far the greater part of the funds in trust and left in trust in this country are administered by individuals. All of you know how frequent it is that the individual trustee has no or very little knowledge of investments. Would it be safe to open the legal doors for all trustees to make investments in stocks, however carefully the law might be drawn as to nature and character of the stock? However restricted the type of stock made legal for trust investment might be, however carefully the stock might be selected at the time of purchase, has the average individual the experience, the time or even the qualifications to enable him to study the trend of conditions, changes in methods, the development

of competition pertaining to the business in which he is a partner, and to sell or change his investment if changed conditions make it wise to do so? We all know that he has not, and I think we shall have to eliminate the possibility of having the laws changed so as to permit the general public when acting in a fiduciary capacity to invest in common stocks.

That brings the question down, therefore, to the limited class of fiduciaries who in the absence of or even with the benefit of statutory authority can properly make and care for stock investments. Many individuals, with no one to account to but themselves, do it well for themselves. But how few of them can spare the time necessary to the handling of a trust, and the time neccessary for the investment features of the trust. Therefore, without too much pride let us recognize the fact that if stock investments are to be made, the logical trustee is the bank, the trust company.

Responsibilities of Trustees

But let me point out to you some of the facts you must face when making or contemplating making stock investments. You do not have, and I do not think you will have, the protection and benefit of statutory authority in the making and selection of such investments.

The Courts for the most part hold steadily against such investments. Even where the testator or the grantor has given the trustee the utmost freedom of investment, or to hold stocks owned by him, the Courts hold the trustee to the strictest accountability. The trustee cannot buy speculative stocks, or in some cases, even hold them where turned over under the express terms of the trust. There are even cases where the trustee was held liable for accepting stocks of speculative character from the grantor himself, notwithstanding permission in the agreement for direction of investments by the grantor.

In the few states where the Courts will look not with complete disfavor upon investment in stocks, the trustee is required to look at the size of the trust, the probable life of the trust, the needs of the beneficiaries, and to make the investments in stocks with relation and in proportion to these factors. It may be said to be a general rule of law, even where the trustee is authorized to invest in its discretion, that the right to purchase common stocks must be clearly given in the instrument, and where so given, the purchase must be confined to stocks of highest grade, with a record of dividends, and non-speculative in character. A pretty big order, you will say, and it is. But that is not all.

As I have pointed out, the responsibility of the trustee does not end with the purchase. It only begins. Fashions change, tastes change, advances in the arts and sciences, developments in locomotion and transportation, and the like, bring about great changes in industries and values, which affect or even wipe out the values in which the trustee bought an equity, or, on the other hand, they may bring about a great growth in the corporation and enhance the holdings of the trustee. These trends and changes, the trustee, if prudent, must watch and judge. He must sell or hold as prudence dictates.

Keep Out Unless Prepared

Now as I have said in the beginning, I am not against a prudent investment in common stocks where the nature of the trust permits it, but I am trying to show that unless your company is equipped to handle such investments, unless you have an investment organization or a man sufficiently experienced and qualified to make such investments, your company would best refrain from investing trust funds in common stocks. This I believe is but justice to the estates in your care, and but justice to your company.

Please do not think that I am looking at the problem only from the standpoint of the large trust company. I am saying what I do because of my experience in both the small and the large company.

Investment Statutes

Much of what I have said to you about investments is purely academic insofar as the States composing this conference are concerned. It is true that the tendency in the makers of wills and trust agreements is to give to the trustee considerable discretion in making investments, particularly where a bank or trust company is named. Where that is the case, most of what I have said applies. But I assume that the majority of wills in these States, as is true in most States, fail to give the trustee full discretion in investments, or any discretion at all, and in those cases the trustee is confined to investments made legal by statute.

The provisions of the law with respect to investments for trust funds in the Southeastern States are quite mixed, in some so unrestricted as to invite disaster, in others, so restricted as to hamper income, and prevent diversification almost entirely. In one or perhaps more the laws have been so rewritten as to furnish a real investment list and guide for fiduciaries.

Here in Georgia, a trustee may invest only, if my memory is correct, in bonds or securities of the State itself. Any other investment by trustees must be made under an order of Court. This has led trustees seeking a greater income to go to the Courts for investment authority, and we all know some of the tragedies that have resulted from some of these investments. Some other fiduciaries in Georgia may buy bonds of Georgia counties and cities. No right to buy United States bonds, or the securities of any other State, nor the best of railroad or utility bonds, nor even real estate mortgages, but lands may be purchased under order of the Court.

In another State, there is a constitutional prohibition against investment in stocks or bonds of cor-

porations. Trustees are limited to the bonds of that State. A more liberal rule applies to some other classes of fiduciaries under order of Court. In several of the others, the laws are about the same, some including United States bonds and Federal Farm Loan bonds and Joint Stock Land Banks. In one there is no statute regulating the investments of trustees or executors. In another, the laws are much more liberal, but include deposits with banks and the purchase of bank stocks as investments.

Where the legal restrictions are too tight, or where they are too loose, they are a handicap to the development and growth of trust business. Many testators and grantors hestitate to give full discretion to any trustee, and they find no answer to their problem in the legal investment lists of these States. The trustee, when so restricted by law, finds difficulty in securing a reasonable interest return for the beneficiary, except by taking risks which the trustee should not be compelled to take. And even where the trustee is expressly authorized to go outside of the legal list, he should have the opportunity of making investments, if he chooses, from a diversified list of legal investments, and receive the legal protection that such laws give.

I do not know of any better work that this Conference could do than to have a committee draw up and use its best efforts to get passed a carefully prepared uniform investment law suited to the needs of these Southeastern States. It will serve to keep your trust business at home, and will in my judgment greatly encourage its growth.

A Big Field for Development

Mr. Chairman, in conclusion, I do feel that there is a big field for development by banks and trust companies of trust business in the Southeastern States. We all know the wrecks of the past along the road of individual fiduciaryship. Wealth is increasing rapidly. People are looking more and more to the corporate fiduciary. The most successful bank of the future is the one that will offer to its customers and the public a well rounded institution taking care of banking needs, investment needs, and estate needs.

Wherever a community is sufficiently prosperous to justify and maintain even one good bank, that bank should become the banking, investment, and trust center for the community. To attain this position, it must, in my judgment, follow the lines I have attempted to lay down. It must be willing to spend the money and keep up its efforts over a period of years necessary to develop the business. It must be equipped to handle it intelligently and successfully after it comes in. But neither of these basic principles is impossible of accomplishment. Through its accomplishment, a great service will be rendered the public, and a very profitable department added to your business.

Discussion

Led by JAMES W. ALLISON, *Trust Officer, First & Merchants National Bank, Richmond, Va.*

IT is a pleasure to all of us to find a man at the head of one of the largest trust departments, who is so very familiar with the problems and policies that the smaller trust departments have to solve, who is willing to discuss them for us so helpfully.

Value of Informing Employees

The first thing Mr. Callaway talked about was the solicitation of new business. There is one thing that I think will be found right helpful in supplementing the efforts of whoever is directly in charge of new business, and that is a means of arousing the interest of other members of the bank staff in trust department matters, and taking the mystery out of trust work for them. I think that is particularly true in the South where so many of our customers have a very close personal relationship with one particular person in the bank. It may be a teller. It may be an officer. That one person represents the bank to them, and when they get a piece of trust literature or when they see an advertisement in the newspaper about trust functions, even though the literature or the advertisement may ask them to consult the trust officer, when they come in the bank I think it is very seldom that they talk to the trust officer about it, first. They take the subject up first with the person that they know best in the bank. If that person knows enough about what we do in the trust department to recognize whether there is a need of trust service, and can answer the first question or two intelligently, we are going to get a whole lot more trust business closed than if the person that they consult is forced to say, "That is something I don't know anything about. Will you come back with me and talk to Mr. So-and-So, the man in charge of that department?" The customer will say, "I haven't time right now," and the chances are you won't close the business. I don't mean those members of the bank staff should be experts in the trust department, but they should know enough about it to be able to answer questions and to recognize the need of that service.

It isn't as hard to do that as it may sound. We have tried it. We found, in the first place, that it was perfectly true that many of the people in the bank with whom the customers came in contact didn't know much about the trust department. We found, in the second place, that it was extremely interesting to them as individuals as well as officers, and that they welcomed the opportunity to get information about it, not the technical points or theories or details, but the things with which we deal, the wills, the laws of testates, the inheritance tax, and so forth. So we arranged a series of group meetings, four of them, of an hour and a quarter each. We put up the notice and asked anybody who wanted to come—officers, clerks, directors, or anybody else—to sign up for them. We had more than we could handle the first time, and repeated the thing a second time. I believe it has been of benefit to us and I believe it would be a benefit to anyone else that tried it.

Has anyone any comments to offer on this business?

Best Method of Advertising

RONALD RANSOM (Vice-President and Trust Officer, Fulton National Bank, Atlanta, Ga.): I should like to know Mr. Callaway's opinion as to the best medium for advertising a new trust department. Does he consider newspapers or pamphlets a better medium for advertising? What would be his advice to a new trust department as to the best and most available mediums?

MR. CALLAWAY: Of course, you can always answer safely by including all three means. It gets back, in my opinion, to this matter of having some one person do it. The bank as a whole it not going to help out the trust department because it has its own departments to run. There are not enough hours in the day to do that. So you must have some one person whose job it is to think about and develop this trust business, and when he wants to go out and call on a prospect he has to go to the president or vice-president or whoever knows this particular man best and either get a letter from him or get him to come with him and introduce him to this man, and talk these things over. He has to be thinking about it all the time.

There is no doubt in the world that newspaper advertising is one of the best means of furthering our business. We never see any direct business come in from advertising, but this is what we find, in our company: we find a direct relation between the returns from the solicitation bureau and the advertising. When we slow up and think we have spent the budget for that year, the new business commences to fall off. It is just simply planting the idea in the minds of the public through the newspapers.

But this method of sending letters and pamphlets is better, of course, than the newspaper method, and if you can only use one method, I should say that you might use the letters and the pamphlets, sending them to a selected list of the customers and the people in the community that you want to reach. Don't go to see them until after you have written them and sent them these pamphlets over a good period of time.

The A. B. A. Advertising Service

ROBERT F. MADDOX (Chairman, Atlanta and Lowry National Bank, Atlanta, Ga.): Along the line of Mr. Ransom's question, I presume that most of the gentlemen present represent institutions that are members of the American Bankers Association, but it is very likely that some do not. Mr. Mechem and I have just attended a session of the Trust Company Division of the American Bankers Association, at Biloxi, and during that meeting, a report was made by Mr. Francis Sisson, who happens to be an associate of Mr. Callaway's, and a Vice-President of the Guaranty Trust Company of New York. He is the Chairman of our Committee on Publicity and he made one of the most illuminating and interesting speeches that I have heard in many years on the efficiency of the advertising literature furnished by the Trust Company Division. They have engaged the best advertising writers in America. They are supplying booklets and leaflets, a monthly poster, plate matter for advertisements in country and city newspapers, a monthly bulletin of advertising suggestions and information covering practically every field of trust service. That Committee is spending nearly $25,000 a year to search out and find the best forms of advertising to develop the trust business. I don't know whether Mr. Lewis has an exhibition of some of that here, but I am sure he will be very glad to call your attention to it and explain it to you if he has. They not only send a good deal of this advertising literature gratis to the members of the American Bankers Association, but supply a complete advertising campaign for one year for $50 a year. This service in my opinion is worth ten times that amount to any bank that is attempting in any way to advertise its trust service.

Free Safekeeping

MR. ALLISON: I don't think anyone will question Mr. Callaway's very good advice not to cut rates in competition. I think one problem that a good many of us face is this matter of free safekeeping that banks got into before trust departments came along. Mr. Mechem two years ago at the New York Conference told us about the experience of the Chicago banks in controlling that through a clearinghouse rule. He told me just a little while ago that it has worked fine. If you have the proceedings of that conference, I think it was the year before last, you will find something mighty helpful to you if you will take it up with your local clearinghouses. It was to us.

The Operation of Going Concerns

C. F. ZUKOSKI, JR. (Vice-President and Trust Officer, First National Bank, Birmingham, Ala.):

In taking over estates, we are frequently called upon to actually undertake the management of the going concern. It may be the business of an individual, perhaps not even in corporate form, a going business. We have taken over a number of them. But I should like to ask Mr. Callaway what policies, if any, have been formulated by a bank of your type on that problem.

MR. CALLAWAY: Of course, it depends a great deal upon the terms of the will. I assume you mean where you are left without direct instructions as to what you should do.

MR. ZUKOSKI: I mean where we take over the entire control of the business. It is not merely a minority stock ownership but an entire control.

MR. CALLAWAY: You frequently find yourself in a position where you have to run the business, and frequently you have to run it for a great many years. We have been running a wholesale millinery business, women's hats, for a great many years because the estate makes 50 to 100 thousand dollars a year out of it and the whole investment in it isn't 25, and we can't quit. We are also running Durkee's Salad Dressing, and other things of that sort, and it is one of the greatest problems we have. We don't want to do it. It is certainly best to get out the moment that you can find a good sale, but you cannot sacrifice those assets of the estate, and you have to take that along with the balance.

MR. ZUKOSKI: Have you gotten up a separate organization of men who are trained in that work, to handle it?

MR. CALLAWAY: Yes, sir. But, you know, like most of us who have gone from the South to New York, I used to have the idea when I went up there that the business of the North was carried on by a lot of super-men who could do anything in the world. But they are not super-men. They are just like all the rest of us. And any man in a bank with good common business judgment can take one of these institutions and perhaps run it just as well as the man who died ran it. You don't have to have trained men who may be able to run a millinery business or a salad dressing business. If you just have a man of intelligence, with common sense, a good business managing type, he can handle it—and he does.

MR. ZUKOSKI: The trouble is that undertaking a business of that sort takes up a great deal of time. I should say if a man were going to do the job right he would have to give it a very considerable portion of his time. Unless you have some sort of a staff that undertakes that sort of work, it is difficult to do a good job of it.

Never Renounce an Estate

MR. CALLAWAY: There are many estates out of which you never make a cent, but you can't discriminate; when a man dies and leaves you as the executor or trustee under his will, you have no way of changing it with him, and you have to go through with it.

MR. ZUKOSKI: You treat each problem as a separate one?

MR. CALLAWAY: Yes, and we never renounce on a will.

MR. ZUKOSKI: Do you have any policy in soliciting your wills in connection with that? Do you aim to avoid estates that will probably involve a going business?

MR. CALLAWAY: We do, in solicitation, of course. But you only know a small percentage of the people who appoint you. They like to reserve the right to change, and after a man is gone, it is all over. You have to go forward, and I think you will find it your business judgment to do that.

JACK B. KEY (Trust Officer, Merchants and Mechanics Bank, Columbus, Ga.): I was very much interested in Mr. Callaway's statement that they never renounce an estate. He stated that Clearinghouse rules and regulations are very necessary, and I am sure everybody agrees with him on that.

Suppose a Scotchman should die and set forth in his will just how much the executor should charge. I happened to see a will of that kind very recently in my own town and the fee that he had set forth was only about half or a fraction over half of what the executor in the state of Georgia is liable to charge. How do you get around that?

MR. CALLAWAY: In some of the states—it is true in New York—an executor may renounce the fee without resigning. I don't think you have the advantage of that here.

My feeling would be, Mr. Key, that we would promptly renounce in that case because, of course, that is not a fair contract. If a man has undertaken to take advantage of you and doesn't give you an opportunity to discuss it with him, if he dies first, I think your obligation has been relieved.

CHAIRMAN MECHEM: I should like to follow a little further into the question raised by Mr. Zukoski because as you say it is one of the most difficult problems with which we are all faced.

Suppose you do inherit such a business, your salad dressing business, or your hat business. Do you let the officer who would normally be entrusted with the administration of that trust handle your interest in this salad dressing business, or is that turned over to some other officer of the bank, and, if so, what kind of an officer?

Trust Department Must Run Itself

MR. CALLAWAY: In a large bank that is not so much a problem as it is in a small bank, because we have in a large bank men of different training, and when we get into a problem of that sort, if there is nobody in our own department that can properly run the business in question, we, of course, must go outside and employ someone who can. But put it under the direction of some officer of your bank who knows more about that line of business than perhaps someone in your trust department does.

But I will tell you gentlemen you are going to find from experience that the trust department

must run itself. You just cannot go to the other members of the bank and put the burden upon them of taking time from what they have to do to run your salad dressing business. You have to run it, yourself. But, Mr. Mechem, we do this, and I suppose you do, too: if we have some man in our bank who knows a good deal about copper, or sugar, or something of that sort, and we have an estate that involves that, we call upon that man for help, and we get it.

CHAIRMAN MECHEM: Yes, we do that. Obviously, though, we can't have men trained in all the various businesses which we are likely to inherit.

Do you make it a general practice to have a survey of a business made, let us say, by a firm of industrial engineers at the time you take it over?

MR. CALLAWAY: Frequently.

CHAIRMAN MECHEM: And, of course, you have an audit made at once?

MR. CALLAWAY: Yes, we frequently do that.

MR. ZUKOSKI: It seems to me that the effectiveness of our trust department will more and more be judged by its ability to take over jobs of that sort, because people who die leaving property frequently leave their property in that shape. In the few years that I have been in trust work, that problem has presented itself frequently; it has become increasingly difficult; and I think the problem is one of sufficient importance to justify a paper at some future conference.

CHAIRMAN MECHEM: You are quite right, sir. It is one of the most difficult problems we have to deal with, and it has been discussed at some of the meetings.

Employment of Outside Engineers

I might say this: that there is a difference of opinion among some of the banks with which I am familiar as to whether it is wise to build up in the department a staff of so-called industrialists, or industrial engineers, or whether it is better to have certain of the men in the trust department designated to handle that kind of work and then let them employ in each individual case outside engineers to make a survey and do whatever is necessary. We have felt that it is quite important, and that is the reason I asked Mr. Callaway if they had some outside expert go in at once and make a survey of the business and make a recommendation so that in the event our course of procedure turns out not to be as satisfactory as we had hoped it would be we will have the benefit of this outside opinion as the basis for our action.

Mr. Callaway, have you ever done this: have you ever in these cases secured any new powers or new consents or new immunities from the beneficiaries before you undertook the management of a going business?

MR. CALLAWAY: Yes, sir, where there were no remainder interests of any kind, where we were really performing a business administration for the direct beneficiaries, it has not been an uncommon thing to have them come in and relieve us from liability in carrying on a particular line of business that they wish conducted.

CHAIRMAN MECHEM: One of our directors who is an attorney has recommended that we do that. We never have done it in the past. I think we may in the future. A trust company holds itself out as being ready to do a trust business. A man names an executor and trustee under his will without letting the trust company know and the trust company finds itself in this very difficult situation of having a going business to run, and our experience has shown that in the majority of cases a man's business is in the worst shape it has ever been in at the time he dies. Which has caused the other, I don't know, but that is usually the case. We have taken the position, as Mr. Callaway just suggested, that we ought not to resign. If a man trusts us by naming us, in his lifetime, and then he dies, we ought not to decline to act, ought we?

MR. CALLAWAY: I agree to that.

CHAIRMAN MECHEM: But it is fair, if we find ourselves in such a particularly difficult situation, to call the heirs in and say, "Now, we can only do our best, and it is a very bad situation; we want some special approval from you in advance."

MR. CALLAWAY: We do that, sir, at times. We find it quite helpful.

Putting a Trust Officer on the Board

RONALD RANSOM (Vice-President and Trust Officer, Fulton National Bank, Atlanta): Mr. Chairman, you might be interested in a practical problem that confronted us recently.

One of our customers who wanted to name us in his will recognized the fact that his business must be continued for some time after his death. He suggested that one of our officers go on his board and sit in with him for several years, in order that he might become thoroughly familiar with his problems.

That is a very excellent, practical suggestion but it is subject to a very obvious objection, too: the officer who is sitting on the board is just as apt to die as the customer. So I don't know that that is any solution at all of the problem.

CHAIRMAN MECHEM: Mr. Zukoski, you had a situation in Birmingham that Mr. Barry told me about where just that thing was done. Can you tell us how that worked out?

MR. ZUKOSKI: I am afraid I don't recall that instance. But we have done that very thing. I think it is an excellent suggestion. Of course, you run the chance of a particular individual in the bank dying before the testator. But in many cases it would be extremely helpful to have that advance experience.

CHAIRMAN MECHEM: Have you done that, Mr. Callaway?

MR. CALLAWAY: No, sir, because we take too big a responsibility then for the corporation. The minute a bank puts a member of its staff on the

board of any corporation, particularly if any of the stock is in the hands of the public, it becomes a sort of sponsor for that corporation. So we do that very rarely. I can see the great advantage in what he says about having a man familiar with that business, but, I believe, not speaking *ex cathedra,* that our feeling would be against it.

CHAIRMAN MECHEM: That wouldn't be true after the estate came into your hands?

MR. CALLAWAY: No, I understood you meant during the testator's lifetime.

CHAIRMAN MECHEM: What I had in mind was, suppose you have 60 per cent of the stock and the balance of the stock is held in the hands of the public. The situation is just the same, as far as those shares are concerned, after the man's death as before, as far as putting a man on the board is concerned, isn't it?

MR. CALLAWAY: It is a little different. We have got to take the responsibility after he is dead. It is our property and the stock is in our name, but up until his death it is in his.

CHAIRMAN MECHEM: And it is your practice to put officers of the bank in as senior officers of the corporation?

MR. CALLAWAY: Not as presidents, but we try to get a good man to operate it, or put someone in. But we have one or more of our officers on the executive committee, not as officers.

R. E. CUNNINGHAM (Vice-President, State Planters Bank and Trust Co., Richmond, Va.): Without prolonging the discussion, I should like to call attention to the fact that there are an ever-increasing number of estates in which the banks in the Southern territory will be required to administer going businesses, commercial businesses. The most fertile field for new estates is in the commercial department and necessarily many of us will be asked to continue businesses, sometimes in order that the older son may carry on the father's career, and because of the fact that by their contacts with us the customers of the commercial department feel that we are better qualified to run the business that anyone else they could get. It has been our policy, consequently, for our commercial department to work in closest cooperation on matters of this kind, and to have, either in an advisory capacity or on the boards of such corporations as we have to manage, an officer of the commercial department best qualified to know the particular needs of that business.

CHAIRMAN MECHEM: We have had that same situation, of course. Most of these businesses that we get are the businesses of customers of our affiliated commercial department. It has always been the policy of the First National Bank, with which our trust company is affiliated, not to put officers of the bank on the boards of customers, not to have our loaning officers on the board of directors of a company to which they are going to make loans. Following out that policy, we have refrained, after the death of a testator, from asking that loaning officer to go on the board of the corporation. We have put the officers of the trust department on the board of the corporation, and those officers have kept in close, daily contact with the commercial officer who is most familiar with the corporation. But we have not put those loaning officers on the board of the corporation.

MR. CUNNINGHAM: You do it in an advisory capacity, so to speak?

CHAIRMAN MECHEM: Yes. What is your opinion on that, Mr. Callaway?

MR. CALLAWAY: I think it depends a great deal. Most banks feel a great sense of responsibility in these trusts. I will take Mr. Maddox, as an example, as the head of this great bank of his. If his bank found itself some day the majority stockholder of some large corporation and it meant a great deal to see that business properly carried on, I don't think he would hesitate, if apparently he was the man to represent the bank in that situation, about going on that board and helping them.

We generally confine it to the trust department. That is our rule, too, but it does happen occasionally that some man in the bank, one of the officers, is quite familiar with a particular business (not so much from having made loans to the corporation, but because of being familiar with that particular line of business, that industry) and we call upon him and he always responds. That doesn't occur often, but occasionally it does.

C. W. BAILEY (President, Southern Trust Co., Clarkesville, Tenn.): I have been very much interested in your discussion of investor-operation. I should like to ask if you ever ran a farm.

MR. CALLAWAY: I suppose you heard it stated that I was a native of Georgia. That answers the question. I lived on one until I was fourteen.

MR. BAILEY: I should like to know if as a trust company officer you have ever gotten hold of 500 acres of land with 15 or 20 mules and a half-completed crop.

MR. CALLAWAY: No, sir, I haven't. I will admit that from our knowledge of it, you put up a harder proposition than we have ever had to face.

ROBERT G. STEPHENS (Vice-President and Trust Officer, Trust Company of Georgia, Atlanta, Ga.): Mr. Chairman, this whole question brings up a very important policy on the part of an executor. I think when the will is being prepared, when you are discussing the plans and provisions of administering an estate with the testator, those things should be gone into, and authority should be incorporated in the will, giving the executor the right to continue any going business in which the deceased may have been engaged during his lifetime.

The Supreme Court of Georgia has recently held in a very important case—Clark against Clark—that if an executor retained an investment, whether a going business or otherwise, of a deceased when the opportunity presented itself to the executor to liquidate and dispose of that investment, and continued to operate it and subsequently suffered a loss, the executor was personally responsible.

I think that under proper provisions in a will giving the executor the express right to continue a business, or the express right to retain by way of investment any property which may be held by the decedent at the time of his death, that would overcome the ruling in Clark against Clark. But I think it would be a very dangerous thing for the average bank or trust company to undertake arbitrarily to continue on indefinitely any business in which the deceased might have been engaged unless they have that authority in the will.

Should Liquidate as Speedily as Possible

The whole question of the review of investments in estates should be predicated upon that idea of liquidating as speedily as possible any investment or any business interest in which the deceased might be engaged, without loss to the estate. If you continue a business, or continue to hold investments, there is just as much chance of an operating loss or depreciation of those investments in many cases as there is the hope of realizing a profit therefrom. I think that question should be worked out with the deceased (get his ideas in his lifetime as to what his wishes are) and then incorporate proper powers in the will giving the executor authority so to do. In the absence of that, the executor ought to seek to liquidate those interests without delay. I should like to get your views on that question, Mr. Callaway.

MR. CALLAWAY: Of course, it is generally when there has been a heavy loss in the estate that this question comes up, and the courts are very stringent on that point. Even where a will gives you the authority to carry on a business, if common prudence or certain signs of the times suggest that you should sell, the courts will hold you responsible, notwithstanding the expressed authority in the will. And that is one of the reasons, in answer to Mr. Mechem's question, why frequently, if there is no remainder interest, if all the parties can come into agreement, and if they wish the trust company to carry on a certain business beyond the time where the trust company thinks, under the will, it should be closed out, they should take that burden upon themselves and not ask another to carry it.

CHAIRMAN MECHEM: This is a very interesting subject. Are there any further questions?

MR. STEPHENS: Mr. Chairman, we are discussing the whole question of carrying on the business. It seems to me that in the average case with which we will have to deal our policy ought to be to get the estate out of that business just as rapidly as we can; that the function of an executor, a trustee, is very different from the function of a business man active in life and devoting his whole attention to the management and success of the business.

In the usual case that will come to our hands, the testator is the guiding spirit in the business in which he is engaged. Otherwise, he wouldn't have to draw a will. With his guiding hand removed, and his ability lost to the business, how is the trust department going to replace that man? To attempt to continue running that business would be fraught with danger, and it seems to us that except in extraordinary circumstances where it is impossible or impractical to liquidate the business, except at great loss, our policy should be to get the estate out of that business, and to get the proceeds safely invested in securities that are not likely to depreciate or suffer loss from year to year.

There are instances in which an executor is compelled to carry on a business. I recall a case where my institution was appointed executor under the will of the secretary of a county fair association. That man was operating several merry-go-rounds and devices out at the fair grounds. We tried our best to dispose of those interests, but they couldn't be sold for anything. So, we were like the country dog in the city: we had to do one thing or the other. We proceeded to operate them, and we have already made about five times as much as the highest offer we received for the interests of the deceased. However, we did not undertake to operate these devices directly, that is, the bank itself, because we realized that if some little boy got his finger hurt, or some woman happened to be slightly injured, we would face a damage suit. So we arranged to lease those concessions on a fair basis, so that the lessee became the actual operator, and we have been very successful with it. But that was a case where we had no choice. We had either to operate the merry-go-rounds or simply junk them.

However, in the average case, I think the executor should bear in mind the fact that during the life of the deceased he was interested in this business and devoted his time to making it a success, and that after his death it is the duty of the executor to protect the family of the deceased, and to liquidate those interests, instead of trying to run them.

On the matter of putting an officer of the bank on the directorship of the corporation, that simply makes the bank responsible to the public for the successful operation of that business, and unless the entire time of that man can be devoted to that business, to replace the time of the deceased, the business will be run at a loss rather than a profit.

CHAIRMAN MECHEM: Mr. Stephens, I think we will all agree with you that unless there is some particular reason, a large investment in a commercial or manufacturing enterprise is not a suitable investment for a trustee, and that the thing we are all ultimately looking forward to is the sale of this interest. But we all find ourselves in positions where we cannot make a present selling, and the problems that we are discussing, as I understand it, are the problems of handling that business in the interim between the death of the testator and the time when we are able to make a reasonable advantageous disposition of the business. We are all faced with the problem at once of whether we are going to liquidate the business or continue it until we can sell it as a going concern, and if we choose the latter alternative then we must handle it properly during

that time. Also, we sometimes find ourselves in positions where we can't sell.

Mr. Bailey spoke about having a farm. We are co-trustee with a widow of a very large orange grove in California and she won't sell because she thinks some day they are going to strike oil. I don't know whether they will or not but in the meantime we are powerless.

It is the operation of the business pending the disposition of it that we are talking about. Is that in accordance with your idea, Mr. Callaway?

MR. CALLAWAY: Yes, sir. I also agree with Mr. Stephens. But it is the exceptional case that we are all so worried about.

MR. STEPHENS: I understood what you had in mind, but I wanted to bring it before the Conference so they wouldn't get the idea that the thing to do is to undertake the running of it, even if they can dispose of it.

A Model Trust Investment Statute

ROBERT F. MADDOX (President, Atlanta and Lowry National Bank, Atlanta, Ga.): Mr. Callaway referred to the trust investment laws of the various states and suggested that this Conference could very easily appoint a committee looking to the revision perhaps of the laws of this particular section. And before we get through with Mr. Callaway, who has been very kind and generous and illuminating and willing to answer all sorts of questions—and I guess he is getting tired—I should like to ask him, out of his very wide experience, which I imagine he has had throughout the United States, what he would say was the most model state law that he has come in contact with, which we might perhaps take as a pattern.

MR. CALLAWAY: I was particularly interested in this subject, Mr. Maddox, because as one of the officers of an association in New York, I was on a committee for the revision of inheritance laws there in New York. As you know, our laws are archaic. They haven't been changed in thirty or forty years, and we have just been through a long, three-year siege with the Legislature, bringing in a new law that permits investment in public utilities and railroad equipment and different classes of railroad bonds, removing their restrictions on the cities, and counties, and things of that sort, and it is pretty stringent at that. But for a first step, I would say that the New York law could very well be fitted to the needs of our southern states, rather than the more generous law in Massachusetts, because I do not believe you will ever get a law through the Georgia Legislature that would permit the purchase of common stocks. I wouldn't even try. I would simply endeavor to get something that is modern along the lines of the New York law rather than the Massachusetts law.

MR. ALLISON: I have just one more suggestion to offer. I don't think we will have time to go into investment reviews, but I think it has been pretty well covered in another way. But there is a policy of guarantees that our institution has always thought a lot of. I am reading now out of one of their booklets:

> "Under the laws of New York State, the trustee is not permitted to deal with itself. This Company does not buy securities for its trusts, either from itself or from any affiliated company; nor does it sell to itself or any affiliate. No profit whatever accrues to the company either directly or indirectly through the purchase or sale of trust securities."

I thought Mr. Callaway might perhaps comment on that for us.

MR. CALLAWAY: It speaks for itself, Mr. Allison. That is one of the basic principles of our trust department. We never buy or sell anything that we can make a profit in, or buy or sell anything that we are interested in, ourselves. To begin with, you become an insurer the minute you do that, and you would have more courage than I would have, if you want to get the trust company to be of any size, and you begin to sell stuff from its own shelves and become a guarantor on all the property you put in there. Besides, I think it is wrong morally and you oughtn't to do it.

Assisting New Trust Departments

CHAIRMAN MECHEM: One of the most interesting features of the development of the trust business is the great number of new trust departments that are being started. Mr. Callaway has sounded a very wise note of warning, in stating that those departments should not be started unless the bank is ready and willing to have a competent man who can successfully carry on that work.

The starting of these new trust departments casts a very large measure of responsibility upon the American Bankers Association. One of the most important things that the Secretary of our Trust Company Division is doing is in assisting the new trust departments in their methods of accounting, methods of keeping their books, their forms of instruments, and in their policies. But those of us who are in the trust business can't shift that responsibility entirely onto the American Bankers Association. It is very important for each and every one of us to assist the new trust department in every way that we can, for two reasons: first, because we naturally want to help anybody who is starting out in the line of business that we are pursuing; and, second, for the more selfish reason that it is of the greatest importance to every one of us that these new trust departments that are starting shall conduct their business as it should be conducted, because every piece of trust business that is done wrong reflects not only on the particular institution that makes the mistake but upon the whole body of us who are carrying on this business and upon the whole idea of the corporate fiduciary.

So the assisting of the new trust department is a very important and a very vital matter for each and every one of us and the next subject for discussion on our program this morning is, "The Immediate Problems of a New Trust Department."

The Immediate PROBLEMS of a New Trust Department

By E. R. FARRIS
Trust Officer, First National Bank, Laurel, Miss.

The first step in opening a trust department, about three years ago, in a town of 18,000, was to secure a trained trust man to head the department, and to provide him with an assistant and a bookkeeper-stenographer. Even in a small bank, a trust officer ought to be free to formulate plans for new business, to consult with clients and to make calls.

At the outset, there should be adopted fundamental policies which include cooperation with attorneys; the decision not to buy securities for trusts from the bank's bond department; an audit of accounts four times a year; and 100 per cent cooperation from officers in naming the bank as their executor and trustee.

In planning to handle the business, provision should be made for quiet quarters, adequate record checking, numbering of trusts, security for trust deposits, and study courses for employees.

To obtain the business, the public must be reached by newspaper advertisements, booklets, specially written letters to classified groups and by talks before clubs and associations.

A trust department in a small town will not ordinarily bring a profit for five years. To pay a profit at all will require the active aggressive efforts of the officers and particularly of the trust officer.

OUR bank, The First National Bank of Laurel, Mississippi, is one of the many national banks of the country which has comparatively recently been granted trust powers and has taken advantage of the opportunity for greater service in organizing a trust department as an important part of its general banking business.

Laurel, Mississippi, is a town of approximately 18,000 population located in the heart of a great yellow pine region. The people of the city are progressive and possess in large degree a civic pride which has resulted in the erection of a public library, art gallery, schools and churches, which, I believe, are second to none in the country in a town of its size. The surrounding country is forest, cutover land, cotton and truck producing areas on reclaimed land. The people of the rural districts are as a rule poor prospects for the trust department. A great deal of the wealth of our city and territory is represented by fortunes made from its leading industry, the manufacture of lumber.

I state this by way of introduction to give you an idea of the type of community we serve and our prospects in building a profitable trust business.

About three years ago it was decided to open a trust department in our bank. It is my purpose here today to discuss with you the ideas and fundamental principles adopted and our experience so far with the problems encountered in the practical operation.

Personnel Requirements

It was decided in the beginning to secure a trained trust man to head the department, to provide him with an assistant and a bookkeeper-stenographer. This made three people in the department. I would like now to emphasize the personnel requirements of a small trust department. It seems to me to be highly advisable to get a trained trust man to head a new department. The idea is held by some bank directors that a man in their commercial department with several years banking experience may qualify or that a young attorney in the community will do. Both these ideas have short-comings.

The ideal, in my opinion, should be a man with commercial banking and trust department experience and he ought to be legally trained. I don't mean by that, the trust officer need be an admitted attorney, but I do mean a trust man cannot be highly successful without gathering the fundamentals of the law and special knowledge of the laws affecting administration and taxes.

With reference to legal training in my own case, I have been continuously on the pay roll of banks for the past twelve years and during that time completed of evenings the course for a Bachelor of Laws

degree and have been admitted to practice law in two different states—I don't say this in any manner of egotism but to illustrate that a bank man and particularly a trust man can get legal training by application to the task.

A trust officer in an embryo department ought to have an assistant and a stenographer-bookkeeper. He should be himself thoroughly familiar with the books and accounts. He should know how to draw reports and statements and the difference between principal and income, etc. He should at the beginning teach his assistants thoroughly everything in connection with the work.

The trust officer ought not to have to assume the duties of bookkeeping or too much detail work. Even in a small bank, he ought to be free to formulate plans for new business, to consult with clients and to make outside calls.

Outside Calls

Speaking of outside calls, I am sure that some of your bank's best new business can be secured by outside calls of the trust officer. A trust officer with the proper entree ought not to hesitate to call at the prospective client's office and with force and effect explain how his bank can serve in the handling of an estate or the handling of trust funds for the benefit of minor children, the wife, or any dependent. My experience has been that nine out of ten men are glad to discuss the matter if they think you know more about the subject than they do. There are a few, however, to whom the mention of their will is like slapping them in the face with a wet glove.

Outside calls by the trust officer should include the lawyer's offices. In a small town he ought to call there often. They are the feeders of the trust department. The trust officer, if he can't have legitimate business, ought to find excuses to call in the law offices, to look up something in the books for instance. He should not overlook the chance to spring some law question if possible or bring in something about how easy it is for lawyers to handle accounts in the trust department. "We do all the work and the lawyer gets the fees."

You know these lawyers in small towns like nothing better than a talk-fest where they usually do the talking. Don't ever let a lawyer get antagonistic. One lawyer in our town wrote our bank that the trust officer was doing a lot of legging for business which he thought unethical. We called on him the next day. Above all, the lawyer should be given to understand that he is treated absolutely fair in business he brings the trust department and any appointments he secures for the bank he is to be retained in all future legal matters in connection with that appointment.

Fundamental Policies

At the beginning in a new trust department there are certain fundamental policies which ought to be adopted. I will discuss some we have adopted.

As I have said before we endeavor to cooperate with attorneys. We decided not to accept the appointment in any probate matter unless represented by an attorney of record.

We decided we would draw wills but request that they be approved by an attorney.

We decided that we must not make two profits from a trust and we would not buy securities for trusts from our own bond department, unless specifically authorized by the instrument creating the trust. This brought on some discussion in our committee. So we did what we sometimes do on troublesome questions, we wrote the trust officers of ten of the leading trust companies in the country asking if they considered it legal or ethical to purchase with trust funds securities from their own bond department. Nine out of ten courteously replied. Incidentally, the one who did not reply was dead, I found out later. Of the nine who replied to the inquiry, eight said it was ethically wrong—that it would offer temptation to place slow-moving securities in the trusts and that double profits, that is, a profit in the bond department and the trust department was illegal, etc. One reply was interesting. It was from an old experienced trust man in Massachusetts. He said he could see no wrong in buying from your own bond department because as Trustee you were trusted. If you decided to cheat the trust you would do it some way and if you were the right kind of trustee you would select the right kind of security for the trust at the right price. While I, as trust officer, was opposed to purchases from our bond department, I could not help having a great deal of respect for the writer of that letter. I respected him because fundamentally he was right. High character and devotion to the interest of those you represent are in the last analysis the test of the question.

We decided that our department must be audited four times a year by the bank's auditor and reports made to the bank's directors.

We decided that a trust committee, which in our case was the executive committee, should approve all purchases and sales of trust securities and that securities held in the trusts should be approved periodically by the committee.

We decided that the active officers would give 100% support by drawing our own wills appointing the bank in some fiduciary capacity. Incidentally several of our directors have done the same thing, to my knowledge.

We decided to comb the tax rolls, our vault box renters, savings, and commercial customers for names, that a prospect card file be made up giving the name, address, family relationship and estimated worth of the prospective client for our trust department. Officers were requested to hand in the names of prospects from time to time with this information so cards could be made up. This constituted a valuable mailing list and prospect list.

When the personnel of a trust department has been selected, when fundamental policies have been adopted, there still remain two important questions

that will stay with you. First, how to get the business and second, how to handle it after you get it.

Handling the Business

In handling the business it is advisable to have a part of the banking quarters for trust work away from noise and confusion of the bookkeeping and commercial departments. A location near the safe deposit box vaults is best. Access to private consulting rooms is necessary. Many people hesitate to talk freely of their private affairs when people are passing near them.

In our bank we have adopted the loose leaf binders for our records. We wanted our record sheets to be of uniform size. We were unable to get this in stock forms. We took our regular stock record sheets and drew our own forms for check register, escrow and bond and coupon records and had them printed locally. We now have our complete records in two binders. The first containing index, check register, journal, history, bond record and probate docket. In the second are the ledger accounts for trusts, inventory record and general ledger.

In addition to these records we have a loose card system for tickler. This tickler has noted all maturity dates and dates for remittances, time current or final accounts are due and any other duties to be performed in the future, such as the payment of taxes, etc.

Our department has not progressed to the size yet that we have to keep a rent book or separate real estate record.

I understand that we will have, during the conference, a thorough discussion of an accounting system for small trust departments so I will not enter into any theoretical discussion of any accounting systems but will confine myself to merely stating what our small bank does.

I realize that what we do in a small bank may seem elementary to those of you from large trust companies where your bank has a volume of business requiring a trust cage, a rent cage, a coupon cage, mortgage cage, etc. But I also want you to know that I am advised that in some trust companies connected with large city banks, trust business has been forced upon them. It swamps them, so to speak. Where the problem of trust companies connected with large city banks is only how to handle the ever increasing business, we in the small towns have to create, educate, go out after the business, and handle it in a satisfactory manner after we have it.

Numbering the Trusts

In our bank the first cash we received in opening up we had to handle. We couldn't keep it in our department. We had to deposit it somewhere. A good example of the utter uselessness of cash. We deposited it with the banking department in what they called the Trust Funds Deposit Account on their general books. Since these were trust funds, we remembered somewhere in the act that they should be kept particularly safe so we asked the banking department to do us a favor and deposit with our trust department sufficient bonds to secure our deposit of cash. Now we were anxious to increase the number of our trusts and as this deposit of bonds looked like it might be considered a trust deposit in our hands, we decided very magnanimously to let the bank have the honor of having Trust No. 1 and the trust which had furnished the money had to be content with second place and we gave it Trust No. 2. Now from this you can see we started right. We started numbering our trusts from the very beginning.

Securing Trust Deposits

Now right here I want to remark in a little more serious vein. Since we opened those trust Nos. 1 and 2 we have been fortunate enough to be appointed as Trustee under certain mortgage indentures securing bond issues and the sinking funds have at times amounted to considerable sums. We have always required the banking department to secure them with deposits of bonds. This has worked a hardship in that with large state and county deposits the bank was required to use most of its bonds to secure deposits. It was suggested we try out the examiners and the comptroller by placing notes, and notes secured by mortgages in the trust department as security for these funds. They were promptly objected to by the examiners and as promptly removed. Since this was not right I decided on my own account to write to the comptroller and ask if there was any method by which the bank could put a surety bond up in the trust department to secure the cash we had on deposit. He promptly replied no. So I came to the conclusion that the only thing to do was to get ready marketable bonds to secure trust funds and be satisfied. Why not? It was not our worry, it was the banking department's worry to get the bonds.

But seriously—I make the statement time and again that trust funds are a prior lien in case of insolvency. And I can't conceive of our bank failing or any other going National Bank failing and not paying one cent on the dollar to commercial and savings depositors. If we should fail, or any going National Bank should fail and pay one cent on the dollar to its general depositors it must pay one hundred cents to its trust fund depositors. So I will simply pass it with the remark that this requirement of the Federal statutes is in my opinion a harsh and unnecessary requirement.

Educating Employees

When we first opened our trust department it was not very well understood just what business we would do. It was remarked to me several times, "Oh yes, you are that new bond man they have down there in The First National Bank" or "Oh, you are the fellow that writes wills down there in the bank."

Trust business was new, the ground was hardly scratched. About the first thing we did was to get the officers and employees of our own institution to thinking about trust work. We organized among the employees of the two banks in our town a group study class of the American Institute of Banking. To everybody's surprise we had out of the two banks forty-one employees and officers enrolled. There were five officers from the two banks in the number. The course was for twenty-eight weeks, one night per week. The Trust Officer from our bank was selected as instructor, which afforded more opportunity to get across many trust ideas and what services the trust department could render. I was quite proud of that class and at the end of the course, thirty-two diplomas were awarded. I regret to say, however, that the five officers who enrolled had the poorest attendance records. I am sure that class was a success and we were commended highly by the Secretary of the Institute on our attendance and the quality of the papers sent him for grading.

This was one method by which we attempted to educate our employees.

Informing the Public

We try to reach and educate the public in several ways. One means is by running once each week a carefully written ad emphasizing the advisability of drawing wills and the appointment of a financial institution as executor or trustee. We emphasize the permanency, the financial responsibility and safety of the corporate fiduciary. We reach our selected mailing list by direct mailing once each month with pamphlets and booklets. We have started writing our own booklets for this purpose now and have written two so far.

We reach the attorneys and insurance men and our own stockholders with a specially written letter for each class. These are not written so often but we try to put punch in them when we write them.

On a few occasions the trust officer has given vocational talks at the Rotary and Kiwanis clubs. And I think the most effective talk I ever made was before a division of the Parent Teachers Association before about fifty or sixty mothers on the subject of life insurance trusts and the advantages of appointing a bank to receive these funds as trustee for educational purposes.

Value of the Small Account

In our trust department we accept many appointments involving small amounts. We realize that they are unprofitable. However, we go on the assumption that a small matter well handled may lead to larger and more profitable appointments. This was emphasized to me in a conversation I once had with a trust man.

He said that one fine day there filed into the lobby of his bank a whole family of Dunkards. I am not familiar with this sect but he said they wore their peculiar garb and the men wore beards. It seemed that some one had died in the family and they wanted the trust company to administer the decedent's estate. The company accepted the appointment and the assets proved to be only a mule, a wagon and harness, etc., of very nominal value. It seems the mule was the most valuable part of the assets and he died during the course of administration. Well, of course, the whole matter was merely a formality. Several conferences were necessary, however, with the whole family represented, before a distribution could be made of the wagon, harness, tools, etc. It was finally settled to the satisfaction of all concerned, of course at a loss to the trust company.

A year or so later the leader of the group, a bewhiskered old patriarch, strolled into the bank. He called the attention of the officer to the fact that he was one of the heirs in the estate that had been so agreeably handled a year or so ago. He had decided to let them handle forty thousand dollars for him that he was bringing in now in an entirely different form, which proved to be New York exchange.

I believe that is the right principle for a small department to go on. We know that no matter how small is the estate of a man who is contemplating drawing his will, it is very important to him and no matter how small is the estate to which he may be an heir, it is always an extremely important affair to him, because the average man only has experience with one or two estates in his lifetime and the incidents connected with it are apt to stick in his memory always.

Not Profitable for Five Years

The operation of a trust department in a small town will not ordinarily bring a profit in actual earnings over the first five year period. This may not be true if an unusual appointment is secured. We in our bank figured in the beginning that if we could actually bring the earnings account out of the red in five years we would be doing satisfactorily. Our directors figured that the collateral benefits and the potential business in the form of wills written appointing the bank would offset the loss during the first years. I am prepared to say to you that I believe their expectations are being fulfilled.

I am further prepared to say to you that a trust department in a town of 18,000 will not ordinarily pay a profit if the officers and particularly the trust officers sit down and wait for business to come to them. The trust department in a town of 18,000 will not ordinarily pay a profit unless it is founded on high principles, in line with the high standards of the trust business and unless the officers and directors realize the responsibilities assumed and accept them whole-heartedly.

In conclusion let me say this after my modest efforts to expound my theme. Way down in Mississippi, one hundred miles north of the lazily lapping waters of the Gulf of Mexico, is the little city of

Laurel. It is surrounded, if you please, with forests and deforested areas. In that little sawmill town where labor is still two dollars and a half per day, two complementary forces are at work. One is northern efficiency and experience, the other is southern genius, imagination and love of the beautiful. The spirit of endeavor is throwing off the shackles of bygone days. There is a quickening to new impulses which is bringing us back from that great moral and material concussion of 1861 to 1865.

The problem of the South, as I see it, is not alone how to create wealth but also how to conserve it by the proper application of modern fiduciary service.

Discussion

Led by **PAUL S. STONESIFER,** *Trust Officer, First National Exchange Bank, Roanoke, Va.*

MR. FARRIS has covered the subject so thoroughly that any remarks I might make would be out of order. I do think that his bank and the board of directors of his bank deserve a great deal of praise and credit for jumping into the trust department and organizing it right from the start. I think the directors and executive officers of a great many of our banks are not willing to organize one from the beginning. Some of them want to feel their way along. You will find that a lot of the banks are doing that. I think, however, we should look into the future with confidence, and that if the efforts of the trust business are pushed with enthusiasm, the results will be very profitable for our institutions.

The recent growth of the trust companies in our larger cities and I hope the South has come in for some of that—should be an incentive for us in the small cities to follow. Human nature is the same in all parts of our country, and if the idea is good for the people of New York, Chicago and Detroit, why isn't it good for the people of the South?

Attitude of Lawyers to Drawing of Wills

Mr. Farris stated that his bank draws wills. We have always emphasized the fact that at our bank we do not practice law and do not conflict in any way with attorneys' business. I should like to ask Mr. Farris to state the reaction of the attorneys in his community.

MR. FARRIS: I might say this; we didn't come to that conclusion in the beginning. We also adopted the attitude that we shouldn't draw wills in the trust department. But after it had gone along for some time, we had it pretty well understood with the attorneys. As a matter of fact, I called on a great many of them and asked them if they objected to that. The disadvantage, I told them, was this: when I sat down and discussed a man's problem with him and went into his family relationships, found out all about his family, made an outline and analysis of his estate, then I had to say, "Well, now, John, take this up to your lawyer and let him write your will." And when the attorneys saw the disadvantage of that and when they saw that they had to do a lot of work to write some wills, and that they received only a small amount for doing it, they said, "Go ahead and do it. Fine work!"

MR. STONESIFER: What do you do when the prospect hasn't a lawyer?

MR. FARRIS: We request that he take it to a lawyer. We can't follow him and see that he does it, you know, but we request that and if he goes out and executes a will on the outside and brings it back for filing, we accept it.

CHAIRMAN MECHEM: Of course, Mr. Farris, that whole question of drawing wills is very important and very interesting. You will note on your program for tomorrow that you are going to have a discussion of the general question of the relations with the bar by Mr. Griswold, who is the Chairman of the Trust Company Division Committee on Cooperation with the Bar, and I would like, if we may, to leave that discussion of drawing wills until that matter formally comes before the meeting.

Securing Directors' Wills

MR. STONESIFER: There is only one other point I should like to mention in connection with the organization of a new trust department, and that is the endeavor to secure the wills of our directors. I think that is a problem that the smaller banks in the smaller communities have, and it might be interesting for some of the representatives here to tell what success they have met with in their communities in that regard. I know we haven't gotten 100 per cent results in our institution.

CHAIRMAN MECHEM: That is a very interesting suggestion. I might say that in Chicago we go one step further: we like to get the wills of the directors of other banks. (Laughter.)

LEO LEADER (Cashier, City National Bank, Albany, Ga.): Mr. Farris, are you making any money now in the trust department?

MR. FARRIS: We are not out of the red yet.

W. F. COOPER (President, Peoples Bank & Trust Co., Selma, Ala.): I should like to ask the gentle-

man one question touching on the lawyer proposition, and the making of wills. As he states, with a good many of our clients, that is a very delicate proposition, to go into the details of their family relations and what they propose for their trustees to do after they have left us. Have you ever, in your experience, lost business by telling them to go to a lawyer to draw their wills?

MR. FARRIS: We never have, to my knowledge.

MR. COOPER: I have. I suggest it to them. I have the same complaint in my town that you have in yours: that we are encroaching on the attorney's business, and that we should not do it.

MR. FARRIS: You understand, we draw the wills in our department, so we don't lose them. At the beginning, however, as I stated, we didn't adopt that policy and we did actually turn people away who did not draw their wills.

MR. COOPER: That is the reason I asked you that question. I refer them to our attorney or to their own attorney, and they say, "We will see about it later," and consequently that is the last we hear of them.

MR. FARRIS: We never name the attorney for a prospective client to go to. We try to be absolutely fair with the attorneys as we are with the insurance men.

Deposit of Bonds for Protection of Cash

B. W. BARNARD (Asst. Trust Officer, Central Bank & Trust Co., Asheville, N. C.): I want to ask Mr. Farris this question: In speaking of the requirement of the deposit of bonds for the protection of cash on deposit with your banking department, you suggested that that was a harsh requirement, on the supposition, as I understand it, that such a deposit of cash is a special and preferred claim in the event of insolvency and not a general claim.

MR. FARRIS: That is right.

MR. BARNARD: I understood the situation was different and that where the trust company deposited money with the banks, in case of insolvency, with no special guaranty, the deposit of those funds was simply a general claim.

CHAIRMAN MECHEM: Do you come from a national bank, sir?

MR. BARNARD: No, a state bank.

CHAIRMAN MECHEM: Mr. Farris is speaking about the particular provision of the act with reference to national banks.

MR. BARNARD: I understand that the requirement for the deposit of bonds is on the supposition that it is a general claim and the deposit of bonds is for protection purposes, thereby making it a preferred claim, because of deposit of bonds and not because of the general situation of having the money on deposit. In other words, if it were a preferred claim, I don't quite see the necessity of having the bond deposit.

MR. FARRIS: That is my point—

CHAIRMAN MECHEM: But the law requires that they deposit the bonds.

MR. BARNARD: I know it. I don't understand that that is true in connection with state banks. I should like to be enlightened on that subject.

CHAIRMAN MECHEM: The requirement that the bonds be deposited is a regulation of the Comptroller's office and applies only to national banks. If the bonds are deposited with the trust department as security for that deposit, then of necessity the claim becomes a preferred claim to the extent of those bonds, does it not? The bonds are specifically pledged as collateral for that deposit.

MR. BARNARD: I understood Mr. Farris to say that, regardless of the deposit of bonds, the funds deposited in the bank are a preferred claim.

MR. FARRIS: I believe you will find that to be true. I don't know whether there ever has been a case decided where the actual value of the bonds had been exhausted and then they had to go in as a claimant against the estate of an insolvent bank. I doubt if that has ever happened, but I believe the general rule would fix that liability.

MR. BARNARD: As a preferred claim?

MR. FARRIS: Yes, sir.

For instance, if we should by some chance not have enough bonds in our bond department to cover a deposit of cash, and the bank should be closed by the examiners, I think the claims of the trusts would be prior liens against the assets of the bank.

MR. BARNARD: That is the point I am getting at. I did not so understand.

CHAIRMAN MECHEM: I am sure Mr. Farris is not attempting to state the laws of all the different states on that particular question. Perhaps he doesn't know just what the situation would be in your own state on that.

Payment of Rent and Interest on Balances

E. GRIFFITH DODSON (Trust Officer, Seaboard Citizens National Bank, Norfolk, Va.): Does your trust department pay the bank rent for the space you use, and do you receive interest on daily balances for moneys held under depositary agreements, for construction purposes, and otherwise?

MR. FARRIS: No, we don't actually do that. Our auditor has made up an analysis of that. However, we haven't actually made the transfers so that the bank received rent from us and the bank has not actually paid us interest on our daily balances.

MR. DODSON: You may find it profitable to do so, as I have. Our directors used to ask the question, "What rent does the department pay?"

We said, "We don't pay any rent," but we performed legal services and did a lot of things for the commercial department, for which we received no credit.

We consolidated, and a new order of things came to pass, and the trust department must pay rent now. When we were told that we would have to pay rent we said, "All right. We will pay rent, but how about getting interest on daily balances?" I think that is no more than fair. So, the first month

we paid $100 rent and we received $1,000 in interest. The second month we paid $100 rent and received $1,500 in interest.

I offer that to you as a suggestion of a means of increasing your profits.

CHAIRMAN MECHEM: I am surprised they don't raise your rent. That is the way they do with us.

MR. DODSON: I have tried to make them believe that that condition is not going to continue.

W. W. TRICE (Vice-Chairman, Citizens Bank & Trust Co., Tampa, Fla.): I want to ask Mr. Dodson what the beneficiaries of his trust would say if they found out that the interest he gained on that deposit of funds was going into the trust department, instead of the trust?

MR. DODSON: If you will notice carefully what I said, I didn't get into that field. Any interest that is received on fiduciary accounts, of course, goes to the beneficiary of that trust, but having depositary agreements, for construction, and other things, we arrange in our schedule of fees that we hold that money for a certain length of time during which they receive no interest from it, and that is part of our profit. Whatever we receive goes to the commercial department, instead of the trust department.

MR. TRICE: I thought you were referring to the funds that were protected by the bonds.

MR. DODSON: We do have bonds that cover even those funds.

"THE trust business is the greatest business in the world because it is founded on the highest ideals. After all, the fundamental, underlying principle of the business that fiduciaries are engaged in is the protection of people who for one reason or another—inexperience, lack of age, lack of business judgment—are unable to look after themselves. What finer business can anyone be engaged in?

"If the present trend is any indication of the future, a great proportion of the wealth that is being accumulated in the South is ultimately going to pass into your care and that of your successors.

"You will find that as more and more wealth comes into the hands of trust companies, it will include greater and greater corporate interests; so that as time goes on large shares of the stock of the great industries of the South are going to come into the hands of the trust companies, and you are going to be a very potent factor, as stockholders, in the development and the future success of those businesses. So that not only will you owe a great duty to the beneficiaries of your trusts, but you are going to find yourselves in the position that all people and all institutions find themselves in that have great accumulations of wealth; you will owe a great measure of responsibility to the general public, to the world at large, to the community in which you live, for the sane, the wise and the just administration of that wealth."

JOHN C. MECHEM,

Vice-President of the First Trust & Savings Bank, Chicago, and Vice-President of the Trust Company Division, American Bankers Association.

(Presiding Officer, First Session, Second Southern Trust Conference.)

The Development of NEW BUSINESS

By W. C. BOWMAN
President, First National Bank, Montgomery, Alabama

"You wouldn't go bear-hunting with a popgun; nor would you fish for tarpon with a fly-hook. So there isn't any sense in starting out to develop a real department with a mediocre trust officer."

It is first necessary to be provided with the "sinews of war"—with a strong bank having an air of permanency and good will, and directors and officers who are themselves sold on the trust department and who represent the best that there is in the community.

In selling trust business, both indirect and direct salesmanship should be employed. By indirect selling is meant advertising, public speaking, advancement of community welfare and the making of contacts. To make successful contacts, it is necessary to study men, to familiarize oneself with the ways, the likes, the plans and the problems of prospects.

Then comes the problem of direct selling. "You must know what you have to sell. You must be able to prescribe for your prospect's needs just as the physician or lawyer does. And then when you have worked out his problems, you must have the faculty and the capacity to put his name on the dotted line."

Lastly, the greatest way to advertise the trust department and to sell future prospects is through "service." It is by the efficient management of trusts already in hand.

FOR want of a better way to present my subject, I am going to deal with it as the three "S's" in the development of new business: strength, salesmanship, and service—three hackneyed words and yet so essential in dealing with this subject.

The Sinews of War

By strength, I would refer to the bank, to the board of directors, to its officers, and to its trust officers. It is necessary at the outset to have the proper sinews of war. It is necessary that your bank have an air of permanency and that it radiate a spirit of confidence and good-will as a starting-point. It is essential that your board of directors should themselves be sold on the department; that they should represent the best that there is in your community; and that they should be your outstanding salesmen for the department. It is essential that your coterie of officers should be bands of men working in harmony and for the best interests of the things that you are undertaking to do; and then to have a strong, upstanding, outstanding man to represent you.

You wouldn't go bear-hunting with a popgun; nor would you fish for tarpon with a fly-hook. So there isn't any sense in starting out to develop a real department with a mediocre trust officer. If you were going to build a twenty-story building and thought you could get along for the next few years with a five-story building, you wouldn't put up a foundation suitable for your present needs; if you did, when the time came to put up the other fifteen stories, you would have to tear down everything you had done at the outset, in order to put it up. The same thing applies in laying a foundation for the establishment of a trust department.

If you want in your trust department men who are earning a scant living, men who are working on small salaries, men who are on an equality in their means of living with the paying teller of your bank, then hire a paying teller or a bookkeeper or a clerk to do your work and he will bring into the department the men with whom he can associate; but if you want men worthwhile, if you want the capitalist and the manufacturer and the man of means, make it possible for the man who represents you to meet him upon a common ground. When you go to a man and recognize him as a superior, a man who moves in different circles, and you have to apologize to him because you have dared approach him upon the subject, you are lost before you start.

So I say that in order to have a fair chance for

the development of a department, though it may start small, it must start with efficiency and with strength.

Next I will take up the subject of salesmanship, and under the head of salesmanship I would refer to indirect and direct salesmanship, and under indirect, to advertising, public speaking, community interest and ability to make contacts. We get mighty tired of reading this same advertising material—and most of it looks alike to us. But, after all, in the handling of a matter as delicate as the sale of trust service, it is essential that we have a well thought out, intelligent plan of advertising. It is the only way we have of really educating and telling the prospect what it is all about and keeping the matter continually before him.

Indirect Salesmanship

In the matter of public speaking, the man who has the capacity to respond upon all occasions with a snappy, appropriate, timely talk has an advantage that the other fellow does not have. It is one of the things that will reach people and will make it possible to sell yourself and your department in places that you know not of.

I am talking about the man who, by temperament and by disposition, can really inform a part of his community, who likes to do things that help the community welfare and advance the community spirit. Such a man is a great asset to the community, and is like casting bread upon the water. I would not even suggest that our profession could be brought into disrepute by one who would undertake that for ulterior motives, but no class of men are more suited, by reason of their profession and their training, to take their part and do their part in the interest of a community, and it is fortunate for the men who have that turn.

Under the head of indirect salesmanship comes the ability to make contacts. You can't run folks down and sell them trust service. You can't crowd people into executing trust agreements and wills. You have to know, first, how to do the things they like to do, and sell yourself to them upon the things they like to do before they want to do the things you want them to do.

Not long ago I went into the home of a friend and there sat upon the floor a beautiful little child playing with some toys. In a few moments, I walked over and sat on the floor, and without noticing that child started to play with those toys. It wasn't long before she was by my side manifesting every evidence of friendship and affection. I had gained her confidence and her good-will by first doing the things that appealed to her and by manifesting a friendly interest in the things that she was interested in.

Men are just like children: you must manifest an interest in something that brings you up on a common ground with them.

Mr. Smith may come into your office every week for a year, and you may tell him of the importance of trust service. He agrees with you but somehow you don't get anywhere. Then one day he happens to be included in your foursome, or out on a fishing trip you spend one afternoon doing the things he likes to do, and the next morning when he comes into the bank, it isn't, "Mr. Smith" any more, but you put your hand on his shoulder and say, "Bill, you have been putting off this trust service long enough. Let's go in and sign up," and the chances are that he will sign up.

The Study of Men

It is a question of contact. If a man knows you will play fairly, if he finds you dealing upon a high plane in the things that he knows something about, when the time comes to do the job, he will believe that you will play fairly and that you know something about the things you want him to do.

Study men. Find out their likes. Familiarize yourself with the ways, the plans, and the problems of your prospects.

I recall that I used to follow the hounds as they chased the rabbit over the Western plains. A great pack of greyhounds would start out hard upon the heel of a jack-rabbit and they wouldn't be making much progress. But some wise old hound would start out at an angle of about 45 degrees over here and you would think he had discovered a new victim, but not so. He had chased rabbits before and he knew that that old fellow was going to make a turn just over the ridge and seek safety in the ravine beyond, and when he got there the wise old greyhound was there first, and before the rest of them hove in sight he had his game, with less effort, and was on his way back.

We can learn a lesson from that. We can press hard upon the heels of our prospect, with other competitors, and maybe in some way we will run them down and catch him. But if we will do a little intelligent thinking, if we will do a little planning, if we will find out the problems that are his, we will save ourselves a lot of work; we will be able to capture our game with a lot less effort and have it in the bag and take it home before the others know what it is all about.

You must sell yourself and your department before you can sell your customer.

Direct Salesmanship

Then we have the problem of direct salesmanship. All of this leads up, under the head of indirect salesmanship, to the time that you have the prospect before you for closing, and then you must know your goods. You must know what you have to sell. You must be able to prescribe for your prospect's needs just as the physician or the lawyer does, and you must be able to help him solve his own problems. The average man is sold somehow upon the trust phase and upon the fiduciary service, but when he comes in and is really sold he has just begun, and

if you are not able to help him solve his problems, all the rest of the planning has been in vain.

Then, when you have sold him, when you have told him what it is all about, when you have worked out his own problems, you must have the faculty and the capacity to put his name on the dotted line.

If all of the prospects that have really been sold on our departments, if all the men who say they are going to sign up with us really surprised us and signed up, we would have more business than we would know how to take care of.

It is a problem of being able to close the contract. So many fellows convince a girl that she ought to be married and then she goes off and marries the other fellow. And so many men engaged in trust work are fine on selling the service, on interesting people in the department, but they fall short of the mark when it comes to really closing the contract.

You know, you are not a good fisherman just because you can go out and get lots of bites. A nibble gives you a little enthusiasm and a good, hard bite gives you a thrill, but there is a darn little satisfaction in it if you don't land your fish, and it is the same way in trust service.

"Service"

The last is that threadbare word "Service." But the greatest way to advertise your department, to sell your future prospects is to manage efficiently the trusts that you already have. Let your records be a beaconlight of safety, and let your workshop bear evidence of real thought and work. Have something to really show for the business you already have. Then, you must do more than that. The department that has preserved an estate and has been able to settle with the beneficiaries, dollar for dollar, has fallen short of the mark if it hasn't at the same time sold the department to the beneficiaries. If a trust department is existing simply for the fees that it can receive, simply in order that it can preserve intact the principal left with it, the job is only half-done. The greatest boosters that we can have are the beneficiaries whose good-will we have, and the worst and most disastrous knockers are those who bear us ill-will. That doesn't mean that we always have to do the things that please the beneficiary but it does mean that with a real department, with real conscientious service, with trust officials who like to do things that are worthwhile for the beneficiaries, we will send them out as future customers, and boosters for the bank.

After all, the growth of a trust department is dependent upon having as its background an institution that radiates a spirit of strength, permanency and good-will, a group of officers working in harmony and sympathy with the department, and a trust officer of unimpeachable character, with a vision and a will to do the things which insure efficiency in the department and happiness and protection to the beneficiaries.

CHAIRMAN GROOVER: We have had during this session a number of talks that were extremely beneficial but I doubt whether we have had any talk from which we could derive more real benefit and help than from the one to which we have just listened, because what Mr. Bowman has told us to do depends absolutely upon ourselves as to whether it is done or not. It depends upon our own personality, our own viewpoint, and our own actions. Therefore, gentlemen, there is no reason in the round world why all of you shouldn't start out with the firm determination to put the suggestions that Mr. Bowman has offered into effect.

DISCUSSION

Led by J. P. HESS, *Trust Officer, Bankers Trust Company, Knoxville, Tenn.*

MR. BOWMAN, what do you recommend for the cultivation or the preparation of a prospect before you approach him with a solicitor? How long do you advertise to him? How long do you cultivate him before you try to sell him? I understand a lot of people think we ought to wait a good long time. I should like to have that discussed.

Cultivating the Prospect

MR. BOWMAN: That, of course, is a question that resolves itself down largely to the character of your prospect and the way you have sized him up. I don't know that I can answer that in any set way, by any rule, but I do think that we often lose our chance to really sell a man trust service by going at it in a haphazard way, without knowing something about the man's needs, about his family, and without being able to intelligently impress him with the importance of the service, to start with. I don't think it is a question of whether you wait a week or a month. But I think just to buttonhole a fellow and tell him that he ought to be in your department is mighty poor policy.

MR. HESS: My thought along that line is this: When we first started our trust department we heard a lot about this matter of education—you must educate the public—and the result was we did a whole lot of educating before we really went out and reaped the harvest, and I believe the harvest was ready a long time before we began to reap.

I understand, from talking to several people, that there are a lot of people that think that, and I believe it is a mistake. I think Mr. Bowman is exactly right: Be sure that your man is ready, but get at him as soon as he is ready.

M. B. SLAUGHTER (Trust Officer, Holston Trust Co., Knoxville, Tenn.): I think this: any work that is done in soliciting trust business must necessarily begin with the individual but before you attempt to sell a man your service you first owe him the consideration of having followed him. You must "talk" him. That is the thing. No man wants to do business with a stranger, and if you show that you care nothing for him he will certainly care nothing for you or your service. "Talk" him. If his building is well kept, tell him so. If business seems to be coming his way, tell him so. To do this is not flattery, as so many foolish people believe. It is tact. It is rather good breeding. Never argue or contradict.

Let the Client Do the Arguing

There is an old fallacy floating around that every settlement must be full of arguments. I think it is much better to let your client do the arguing, while you get the trust.

I heard a story once of a telephone salesman who was trying to introduce a number of phones in his town. He went to a man named O'Shay, and he said, "Mr. O'Shay, did you know that we have eleven O'Shays in our phone directory but that your name is not among them?"

He said, "I didn't know there were that many O'Shays in this town and, begorry, none of them can have a telephone if I can't. I'm as good as any of them."

That man was approaching him in selling a telephone from the personal side of it and, after all, a trust is an exceedingly personal thing.

So many of us seem to think that business is a feud. In its pioneer days, it was, but men know now that fighting is for children and fools, and that cooperation is a word for grown men. The prospect and the trust salesman must be natural friends, like the eye and the foot, or the finger and the brain. The trust salesman must be quick to harmonize with his prospect. He must harmonize with him as successfully as grey harmonizes with blue, or as gold does with purple. The trust officer has to mingle with the most difficult of all raw materials, human nature. He must study the character and habits of his man as Darwin studied the earth, or as William T. Burns studied criminals, or as David Belasco studies every detail of dramatic perfection. He must think that man; he must talk that man. When he has done that, he has obtained the confidence of that man.

I feel that your advertising merely prepares the ground, but it is not going to bring many people in unless you go to them and personally solicit their business and show that you are thinking them and talking them.

CHAIRMAN GROOVER: You have no doubt noticed that all of this program centers around trust development and that is surely of vital interest to all of us. Did you ever stop to thank that it is the ambition of every normal man and woman to leave an estate? No one wants to live a life, pass out, and leave nothing behind. Therefore, you have a prospect in practically every normal man and woman, for a great percentage of them—and the percentage is larger today than ever before—leave estates. You can't pass a fellow on the street, and say, "Oh, he is just a little bicycle dealer," or something of that sort. He may have a small business, but he is just as apt to have 30 or 50 or 100 thousand dollars of insurance as not.

So you have a field to work in, and it is in the small town as well as in the large town, and we are going to have an address now on the personal solicitation of trust business.

PERSONAL SOLICITATION of Trust Business in a Small Community

By C. W. BAILEY
President, Southern Trust Company, Clarksville, Tenn.

Nineteen years ago when the Southern Trust Company was organized, it was not possible to solicit trust estates. A new company might now make such solicitation, because the worth of trust organizations is more generally understood and appreciated.

The life insurance trust has paved the way. Men are accustomed to discussing their life insurance frankly, whereas they are extremely reluctant to disclose matters connected with their personal income and accumulated wealth. From the trusteeing of insurance, it is an easy step to introduce a similar discussion of all trust matters.

Before embarking upon the personal solicitation of business, the officers of the trust company tried a few interviews which proved successful, and an extensive educational publicity campaign for the life insurance trust was carried on for over a year. A young college man was chosen from the bank and after many months of work and study was sent out, with gratifying results.

However, it developed that the best way to get husbands and wives together and to have time to make an adequate presentation, was through a series of dinner parties. At these parties, a two-reel film, which told the insurance trust story, was shown and a dialogue in which the trust solicitor sold the life insurance trust to an official of the trust company was presented. Following a dinner party, the trust solicitor would visit each man who attended. The amount of business written was entirely satisfactory and justified the expense of the plan.

SEVERAL years ago, before a conference of financial advertisers, I made the statement that we could not and should not do personal solicitation of trust business. That it was not considered proper for a well managed trust organization to go out and approach a man in a personal way and ask to be allowed to handle his estate. To my surprise, the next person on that program turned completely away from his manuscript long enough to tell me that I was entirely wrong. That trust business could be solicited and was being solicited by personal calls made for that particular purpose.

Though that man came from a very large city organization in the North and I came from a very small rural institution in the South, and though there was a great deal lacking in my own section in the way of community education to the appropriateness of the idea of personal solicitation of trust business, I immediately joined my associates in a study of the situation to ascertain whether there was a way for us to make this personal approach in an appropriate manner and to ascertain why we seemed to be so far behind the procession.

We found that there were many favorable angles. The people we wished to reach were trust conscious—to use a current expression. They were thoroughly sold on the worth of trust service. Our own campaign of advertising, covering the previous fifteen years, coupled with the publicity of three other trust organizations in Clarksville, had developed a trust mindedness that was entirely friendly. Still we did not think that we could deliberately ask one of our friends if we might wind up his estate, when he died, or ask him if he did not need a trustee for his wife, or a guardian for his children. It didn't seem to be the thing to do. It might be suggested in general publicity, might even be hinted in a form letter or booklet, but to ask personally for the privilege seemed inappropriate and wide the mark.

Life Insurance Trust Paved the Way

Then the life insurance trust opened the way for us. It is rather strange that we felt immediately that we could suggest the trusteeing of life insurance, with all due regard for the proprieties of the

occasion, and yet couldn't make our first personal approach for general trust service, but such seemed to be the case. Perhaps there was a reason.

Men generally are accustomed to discussing their life insurance rather frankly. They are approached many times each year by various representatives of insurance companies. There are a great many ways in which insurance can be purchased and new ideas are being developed constantly, so every person who carries insurance is more or less interested in knowing something about every one of those plans. Then too, insurance is not a taxable estate during the life of the insured and there is no occasion for secretiveness. It is very frankly and commonly discussed on various occasions where personal income and accumulated wealth would not be mentioned and certainly no discussion would be had as to the amount of annual income or the total wealth possessed; yet the same person might not hesitate to tell just how much insurance he carried.

Because those who carry insurance deal with it in this frank manner, and because there was much educational advertising being done in a national way, it seemed reasonable to believe that we could go personally to those carrying insurance and suggest a plan for its further protection through trusteeship. And this we did with most satisfactory results; and through this avenue we have found a way to discuss all trust matters similarly.

Preparatory Work

First our officers tried a few interviews, and it was gratifying to find that those we approached were seeking the very formula for the protection of their insurance which we were offering, but they had not applied our advertising to their own affairs. Rarely did we fail with a prospect. Then for more than a year, under the guidance and able assistance of certain of the officials of the Union Trust Company of Detroit, whose friendship we are fortunate to hold, we carried on a rather extensive educational publicity campaign for the development of the life insurance trust. One of our executives spent a week in the Union Trust at Detroit, where he was likely much of a nuisance, but he gained much useful information, for he even went out with their solicitors on calls and otherwise had close contact with the personalities that were developing their program.

In the meantime we chose from our parent bank organization a sprightly young college man who was told to make a special study of the life insurance trust and related trust activities. A special course was laid out for him and a particular objective was set before him and it was that he should become qualified to sell the life insurance trust to one of our officers. That we would try him out first.

Our plans were all well laid and fully discussed.

Experimental Interviews

Finally after many months of work and study he was sent out. His pathway was smoothed somewhat at first by asking special friends who carried large insurance lines to allow him to experiment on them. If breaks were made and if our course was wrong we wanted it within a friendly circle. You can imagine our surprise and gratification that those whom we asked to criticize proved to be highly pleased with the presentation and contracts were drawn almost without exception. (They were asked to scoff but they remained to pray.)

Following this introduction we secured, through local underwriters, a very complete list of those carrying insurance in amounts from $5,000 up and we then began a systematic campaign of personal solicitation, accompanied by a program of newspaper publicity and liberal use of a mailing list.

Our experience and study of the problem of personal presentation finally brought us to these conclusions.

1st: That it required at least twenty minutes to thirty minutes to get over a goodly share of our arguments for the insurance trust.

2nd: That as wives are so vitally concerned, and as we like so well to have them sit in on all trust negotiations, we wanted to make our presentation to them as well.

3rd: That it was not possible to get this combination of time and people in any business day at the business office of our prospects, and we could not ask them to come to our building to let us talk to them unless we had them fairly well sold to the idea in advance, nor could we well ask for their time at their homes in the evening.

A Series of Dinner Parties

So we devised this plan.

We bought a two reel film, produced by one of the insurance companies, which told the life insurance trust story in a most acceptable way. Then our insurance trust solicitor and one of our officers arranged a dialogue. The solicitor sold the life insurance trust to the official with much difficulty and against many objections. The dialogue was a modification of one put out by the Trust Company Division of the A. B. A. and one by the Union Trust of Detroit. The dialogue plan which we used was much the same idea as was put on at New York at the Mid-Winter Conference in 1928.

Then we went to one of our Clubs and arranged a dinner party. Present were about 150 people, made up of sixty couples as guests, our entire Board of Directors and their wives and our officials and their wives. Our program was limited to a brief presentation of objectives, then the dialogue and finally the picture. The meal and program required two hours; from seven to nine. Think what an ideal situation. Here were present our prospects and their wives. They were enough interested to come. It was up to us to sell our idea.

Not all of those who were invited came. Some could not. Many would not. Some of them would not come even though invited on several different occasions. We expected that.

The reaction was quite positive. Very favorable

or very unfavorable. There was more than an even break as to the favorable attitude of the wives. In some instances, men became convinced of the necessity for a trust agreement because of the favorable attitude of their wives, developed as a result of this presentation. There were many cases where we sat and planned with both man and wife and the wife had insisted on the trust agreement, as a result of seeing our presentation.

Often it seemed to open a discussion between man and wife which they had both shrunk from broaching previously, resulting in a happy arrangement which was highly satisfactory to both. Too often it is the case that men do not discuss their personal business affairs, particularly with respect to their wills, with their wives.

We had a number of these dinner presentations during 1928 until we had entertained about 300 couples at a cost to us of about $600, including the original cost of the film.

Follow-up Calls

We would have gone further but we had used up a good part of our material and we had to revamp our scheme to get the others. Following each dinner party our solicitor would visit each man who had attended. There was nothing for him to do but ascertain whether the prospect was interested, as the whole scheme had been put before the prospect in a much more forceful way than could have been done in a personal interview. The results from these presentations and visits were entirely satisfactory. The amount of business written justified the expense. It was the best publicity work we have ever done. It opened up discussions of every kind of trust service as had never been done before. It brought us almost as many wills as insurance trust contracts.

Next fall, when the country schools open, when the tobacco crop is in the barns and the heavy farm work is over, we plan to take our picture and our program to the high schools throughout the county where we hope to attract the same sort of audience among the country people that we have had from the town people.

These observations are pertinent.

It is rarely the case that we write a life insurance trust that we do not write a will. One is not complete without the other. The life insurance trust is the vehicle which opens the way for a discussion of all the angles of trust administration. Secretiveness and timidity each play a part in the natural reluctance of men and women to discuss their financial affairs. But when the bars are once down it is very often the case that the owner of the property is even more anxious to discuss its disposition after death than is the trust officer or solicitor who has sought an interview with much trepidation.

Soliciting from a Different Angle

Soliciting trust business in a small trust organization is a many sided program and presents many problems and angles. While our solicitor devoted all of his time for the first year exclusively to this soliciting activity and produced results that were entirely satisfactory and in keeping with the efforts put forth, we saw fit to change the program somewhat and develop the soliciting from a different angle so as to reach the country people more accurately. So right now our solicitor is covering our trade territory on a credit file revision program of our parent bank. He is visiting the farmers ostensibly to check up credit information. This will take many months. Incidentally he is talking banking, trust service, loans and investments, and laying a foundation for a future program of personal calls. His soliciting work while carrying out this program is incidental rather than direct. We are trying to avoid the appearance of soliciting too aggressively as we think it is possible to produce an unfavorable reaction.

A Difficult Tax Problem

Whatever success has attended our efforts has been in the face of a most difficult tax problem. Our State operates under a general property tax law which has remained unchanged for nearly one hundred years. Under it all property, real or personal, is taxed alike. We know from accurate data that we have lost more trust business because of these taxing laws than we have secured in spite of them. This is true of the entire State and is the lament of all Tennessee trust officers. If our taxing laws were reformed so that we could show a reasonable tax on trust estates, with a constitutional limitation thereon, then we feel that our personal solicitation of trust business could be carried on more intensively and certainly much more successfully. The sales resistance would be greatly reduced. It is humiliating to acknowledge, but under present conditions a trust organization throughout the South, where the tax laws have not been revised, must recognize that the greater part of its trust business must come from those estates which are large enough to accept the small return of tax free investments, or those which must face facts, and accept conditions as they are in order to protect the beneficiaries.

An interesting experience in trust solicitation has been this one. Beneath the plate glass top of my desk, at a point where the visitor can never fail to see and read, there is a little printed slip bearing my signature, which sets forth the fact that I have made my will and named our trust organization as my executor. Many, many times men have pointed to that slip of paper and remarked: "I want to do that," and 'twas only a matter of a conference or two until a will or some form of trust agreement was drawn. In some instances it was the wife who sat there at my desk and read the slip of paper and then brought her husband to make his will. The power of suggestion is sometimes more forceful than a personal appeal.

Developing a Background

We could not have solicited trust estates nineteen years ago when we organized the Southern Trust Company at Clarksville. Perhaps a new company might make such solicitations now, because the worth of trust organizations is more generally understood and appreciated. But before there will come any substantial business to any rural trust organization a background must be developed. To the commercial banker it might be termed an operating history. When this is done; when people understand that it is a permanent, properly financed, capably managed, confidence inspiring institution with assurance of succession in management, then it seems only fitting and proper that it should go out and in a personal way tell those it serves just how and why and where it can be useful to them. If a trust organization actually plays the important part we claim in the conservation of property, it is no less than a duty to do that.

Within the trade territory where we live there are some fifty thousand people. Most all those who have any property, we know, if not personally; we know all about them because we have studied them closely through our parent bank organization. Much of their family history is known to us. Their successes or failures are rather accurately revealed in our records. Knowing these facts, and being conscious of the need that exists in some family for financial guidance to take the place of a successful father or brother, or a well managing mother, is it not natural that we should take the opportunity to show them how our service fills that need and how their loved and dependent ones will be protected? Is it not our duty to do that?

If you and I were living together in the city of Clarksville, and you were the playmate of my boyhood days and the friend of my manhood, and if your wife had been one of those with whom I had enjoyed, from boyhood up, that good spirit of companionship of calling one another by given names of "Sarah" and "William", and if I had seen you grow to be a successful business man and marry and had watched with interest the arrival of each of your children, and had seen them develop into boyhood and girlhood, what would be more natural than that I should some day stop for a moment with you and ask "John, shouldn't you arrange so that the Southern Trust Company will relieve Sarah of the care of your estate if you are called away, and shouldn't you protect those children against well-meaning kinsfolks if she should go too?" If I did less I would fail in my duty.

Discussion

Led by **LEE S. TRIMBLE,** *Trust Officer, Orlando Bank and Trust Company, Orlando, Fla.*

At the luncheon table, I asked my neighbor to tell me his idea of the composite institution as represented by this Conference, how large an institution it would be as to resources and about how old in trust development. His answer was that if you exclude institutions of 10 millions of resources and over, the average would be about 3 millions of resources, with trust departments about three years of age.

If that diagnosis is correct, and I daresay it is a rather shrewd one, the fact that this program is very largely given to the development of trust business is very significant, isn't it? It means that these trust departments are throwing aside their swaddling clothes, that they have been through the organization stages, have had their growing pains, and are about to get away to a good start, to really go after business.

The two talks that have been made on these subjects were so plain and so illuminating that it may be that every question you had in your minds has been answered, but remembering my own start in trust work, when everything was new and I didn't know where to turn for information—there were a thousand things I wanted to ask about—it may be that there are men here who are new in the work and who would like to ask questions about the beginning, or how they should start about going after new business. So let us have your questions, please.

The Tax Situation in Tennessee and Georgia

RONALD RANSOM (Vice-President and Trust Officer, Fulton National Bank, Atlanta): Mr. Chairman, there is one question that I would like to ask Mr. Bailey. There is a certain consolation in hearing that the other fellow has the same trouble that you have. What he said about the tax situation in Tennessee, is absolutely applicable to Georgia. I should like to ask him what the Tennessee trust officers are proposing to do about it.

MR. BAILEY: There are two ways that the taxing laws of Tennessee can be changed, both of which are through constitutional methods. The short route is through a constitutional convention. The long route is by amendment of the Constitution passed by the Legislature at one session, passed over to the next session two years hence, at which time two-thirds of the members must vote in favor of it, followed by a vote of the people, at which

time a majority of those who vote for representation must vote in favor of it. We have started on the long route.

A very bad situation existed in Tennessee this year when our Legislature was in session. Several bills were proposed. Tennessee had a tax commission of which the immediate past president of the American Bankers Association, Mr. Preston, was the Chairman. The Commission recommended to the Governor that the taxing laws be changed to provide a tax on intangible personal property of $5 per thousand, a tax on bank shares of $15 per thousand, on capital, surplus, and undivided profits, and for tangible property to be classified by the Legislature.

Following that recommendation of the tax commission, we finally obtained, after many days of hard struggle, favorable adoption by the Legislature of the first step in the long route.

We feel that if we can get that law adopted, if we can finally get Tennessee's laws so changed that we may have a tax on intangible personal property of $5 a thousand, within a matter of five or ten years the trust resources of the trust companies of Tennessee will double many times.

May I just tell you one or two things that are quite interesting that have come to me in the past year, in the investigation of the trust situation, because I feel they bear so greatly on this idea of the development of trust business?

A very large trust institution in Louisville, Kentucky, under the old general property tax law existing in Kentucky until 1916, gave in for taxation to the authorities their $1,000,000 per year, under the old general property tax law. The tax on that $1,000,000 was pro-rated among the various estates held by that trust company.

In 1917, Kentucky adopted a reformed method of taxation, similar to the one we want in Tennessee, and the first year that trust company gave in $28,000,000 for taxation. That trust company has nearly $100,000,000 of trust estates.

Millions Taken Out of the State

I am advertising our experience in Tennessee and talking to trust officers—and I see some sitting here today. We have heard of cases where money by the millions has been taken out of the state. A man went to one of the executive officers in one of the Nashville institutions and presented him with a letter. He said, "You make me just as good a proposition as is contained in that letter, where a proposition is made to me by an out-of-the-state organization, and I will leave you my estate of $1,000,000. I will leave it to you to administer when I die. I will leave it to your care for many years when I am gone."

They couldn't do it. He went out of Tennessee.

I have seen in my own experience a trust estate taken away from me because the Tennessee taxing laws were greater than all the trust business we have been able to accumulate in nineteen years. Do you wonder it makes a man want to commit murder?

Methods of Obtaining Business

M. B. SLAUGHTER (Trust Officer, Holston Trust Co., Knoxville, Tenn.): Mr. Chairman, I find that Mr. Bailey's organization and ours have been traveling along somewhat parallel trails. We also use that card he mentioned, "I have made my will and named the Holston Trust Company as my executor, and recommend that you do the same."

I wish to say that that card is under the glass of every officer's desk in the Holston Union National and the Holston Trust Company. Most of the directors have it under the glasses in their offices, and nearly 120 of our clients have kindly consented to put those cards on their desks. We find that that is doing a world of good.

Mr. Bailey also spoke of this film. The name of it is, "Vanishing Fortunes," and it is put out by the Phoenix Mutual. I don't think too much can be said for the film. We have shown it in thirty-odd towns in eastern and southwest Virginia. We have received over 400 inches of free front page newspaper publicity that could hardly be bought at any price. More than 3000 people have seen that film and heard the talks that are made at the presentation of the film.

In soliciting trusts for every prospect we make out a sheet. On that sheet we put down when we come back from an interview the general topics as they were presented to that prospect. If it took six weeks to close him and we find that another prospect was closed in one week, we look at that sheet and compare the procedure with the procedure followed with the other one. In other words, we analyze our successes as well as our failures, in order that the greatest possible good can be had through that solicitation in working out as far as we can an average method of procedure. Of course, we have to keep in mind the fact that each one of them requires individual consideration. But we find that that sheet is an immense help.

CHAIRMAN GROOVER: The next speaker is going to talk to us on the subject, "Obtaining Trust Business Through Personal Representatives." You will notice that all of these subjects are very closely allied, but that they touch the same proposition from different angles.

Obtaining Trust Business Through Personal Representatives

By THOBURN MILLS
Assistant Trust Officer, The Guardian Trust Company, Cleveland, Ohio

The successful trust salesman has his job uppermost in his mind at all times. His success will be determined largely by the number of contacts he makes and the number of people to whom he tells his story. Selling trust service is not like selling automobiles or bonds. The trust salesman, like the tailor, must take the measure of his client, consulting his tastes and prejudices, making his own recommendations and cutting out and making the suit or plan until it fits perfectly and gives the client complete satisfaction.

To perfect the prospect's own ideas into a plan that will accomplish the desired results and be as nearly fool-proof as possible is the chief task of the trust salesman. This requires sales ability, imagination, optimism and a thorough knowledge gained by a systematic study of the advantages and mechanics of all forms of trust service.

After telling how to work up a prospect list, Mr. Mills outlines the essentials of a successful interview. "The salesman should never give the prospect the impression that he is being sold. Natural and easy conversation will produce better results than studied sales arguments."

After the idea is sold, every step of the ensuing transaction must be followed up and expedited by the salesman, thus saving the time of all concerned and reducing cost to the company.

IN this day of business efficiency and intense competition, executives and business heads in every line are giving a large part of their time and energy to the marketing of their products. The sales and advertising departments of all concerns are considered most vital parts of the business. Trust companies have come to realize that their services can be sold just like the products of any other company. They have been selling themselves for years in the daily contacts of their officers with customers and through the medium of advertising, but it is only recently that they have sent out trained salesmen to market their services by personal solicitation.

There is no branch of the banking field that lends itself better to selling methods than trust service. The great amount of human interest and the variety of selling points that naturally develop give the salesman a tremendous kit of samples from which he can find a pattern suited to each prospect. Here is a wonderful opportunity for ingenuity in analysing human nature; for skill in getting desired information from reluctant prospects; for diplomacy in prying into personal matters when many people resent it from a stranger; and for technique in consummating the sale. Trust service *can* be sold by personal solicitation and wide-awake trust companies are taking advantage of this fact to build for the future.

Taking the Client's Measure

Selling trust service isn't exactly like selling steel or automobiles or bonds although there are many characteristics in common. In selling any commodity, the salesman has definite arguments as to the quality, character, method of manufacture, utility and price of his product—he has a more or less standard product to sell. Not so with a trust salesman. He is more like the tailor who takes the measure of his client, consults his tastes and prejudices as to cloth, color and style, makes his own recommendations and then cuts out the suit to fit his client's particular pattern. He has to try on and make changes until the suit finally fits perfectly and the client has been given complete satisfaction.

The trust salesman, having a comprehensive knowledge of everything that can be accomplished through trust service gets complete information from his prospect about his business, investments,

real estate and life insurance; about his family and the things he expects to do for them if he lives; the personal habits and characteristics of each member of the family, and his own ideas as to the manner in which he wants the estate handled—during his lifetime if a prospect for a living trust and after his death if interested in a will and insurance trust. With this complete picture the trust salesman can fashion a plan that will fit the prospect's individual pattern.

The trust salesman's chief task is to perfect the prospect's own ideas into a plan that will accomplish the desired results and be as nearly foolproof as possible. Thus it is evident that the trust salesman does not approach his prospect with a standard product to sell. He does not try to force a ready-made plan by overcoming his own ideas and prejudices, but uses them to help him make the sale. He is not a salesman of the ordinary type, but rather is he a counsellor and advisor. He makes his sale by inspiring confidence in the prospect that he can help him work out his problem and that his company can carry out the plan.

Must Have Selling Ability and Proper Training

Having the fundamentals in mind, the trust salesman must be fully trained so that he can intelligently cope with his problem. First of all, he must have potential sales ability. Many men having years of experience in handling trusts are unable to sell because they are not tempermentally suited to sales work. The salesman must have imagination and optimism as his chief allies. He realizes that even Babe Ruth strikes out about as often as he hits a home run and a production record, like a good batting average, is built up over the season's work. He is therefore not easily discouraged and is in there taking his cut at the ball to the best of his ability all the time. Selling ability, like love, isn't easily defined. You either have it or you never could have it. Some people have the ability, but do not know it and this can only be discovered by trying it out.

The next step for the salesman is to equip himself thoroughly with the tools of his trade. He must understand the advantages and mechanics of all forms of trust service. He must know just what it is possible to do with trust service from both a legal and an operating standpoint. Problems of taxation must be met. The salesman gets this training by a systematic course of study of all phases of trust work and by personal training from the various departmental heads in his own company. Very fine courses of training can be purchased if the trust company does not have a course of its own.

The trust salesman need not be an attorney, but must have a thorough understanding of the legal features of trust service. He should not prepare legal documents, but he should be able to discuss legal questions with the attorney, giving him suggestions to round out the client's estate program in a form acceptable to the trust company.

Tackling His Job

Having sales ability and a proper training in all phases of trust service, the trust salesman is ready to tackle his job. He prepares his prospect list with great care. He starts at home, beginning with the officers, directors and stockholders of his company. He then makes a complete analysis of the company's customers who do not have trust business and gets a great many leads from these sources. He also gets many leads among the friends and associates of these individuals. The officers of corporations doing business with his company are good prospects. He follows inquiries coming in as a result of advertising and in addition, calls on any one that he believes is a good prospect whether or not he has any business or contact with the bank. Much valuable business can be secured from "cold" prospects, particularly where the prospect is not tied closely to some other bank or trust company. The trust salesman works largely outside of the bank because he must carry his message directly to the prospect. People who voluntarily come in to talk about trust business are handled by the trust officers. The trust salesman's chief function is to extend the service of the bank on the outside and his territory is usually the city and surrounding territory naturally served by his company.

If he is a good speaker, he should talk on various phases of trust service before insurance agencies, luncheon clubs and like organizations, as this type of missionary work is beneficial in spreading the gospel of trust service. While the value of this effort is usually indirect, occasionally good prospects are directly secured.

Casting His Bread Upon the Waters

We have found almost invariably, that when one of our trust salesmen talks before a group of insurance underwriters he strikes a responsive chord in at least one of them that leads directly to business. Recently I participated in the weekly sales meeting of one of our agencies in Cleveland. After the meeting, one of the men came to me and asked if it would be possible for me to go with him then to call on one of his clients. He introduced me to the client and told him that he believed I could help him work out his estate plan. With a send off like that, it didn't require much selling on my part to get that man's will and insurance trust and later to sign him up on a living trust. The insurance man, in making this recommendation, was only giving his client complete service and strengthening his own cause.

If the trust salesman will cast his bread on the waters of cooperation, it will come back to him many times in business secured. He increases his contacts greatly by working with attorneys, insurance underwriters, ministers and his own clients and friends. These people are in daily contact with the best type of prospect for trust service and they can give the trust salesman much valuable business.

Any one who needs trust service and can pay for it is a desirable prospect.

Methods of Operation

Having built up his prospect list, the salesman is ready to try out his wings. It is rather difficult to set up definite rules of conduct that will explain how a salesman works, because this depends to a large extent upon the man himself. Methods that one man finds successful will not fit another, and each must work out his own plan, although there are certain methods common to most successful trust salesmen.

The salesman secures all possible information about his prospect before going to see him. He determines the man's approximate worth, his club and church connections, the men with whom he deals, whether or not he is a customer or is acquainted with the directors and staff of the bank, and any possible information about his family. If he can secure this information beforehand he will not have to get it from the prospect and will be able to present a more logical argument.

The salesman makes an engagement for the interview in most cases, although on first call it is frequently inadvisable to phone for an appointment as the prospect may say "No" before the salesman has an opportunity to see him. However, where the prospect's name has been secured from some individual or from a direct inquiry, the salesman can usually arrange an appointment and thus save himself many futile calls, when the prospect is out or too busy to talk to him.

Recently we sent out a teaser letter to a selected mailing list. It was rather general in tone and we enclosed a return card for the use of anyone interested in receiving further particulars. One of the cards came back from the Secretary and Treasurer of one of the largest concerns in Cleveland. Instead of mailing him any further information, or phoning him for an appointment, I went to see him. He was not very cordial in his reception. He told me that he suspected something like this would happen when he mailed the card and that he didn't want to talk to anyone, but had returned the card more from curiosity than from any interest in trust service. I told him that I realized his position and that I had delivered the booklet merely as an excuse to meet him and tell him that I would like to make an appointment with him sometime, at his convenience, to talk with him about his estate and some ideas of mine that I thought might interest him. He softened somewhat, when he saw that I had no intention of trying to force an interview and told me that, while he wasn't interested in trusts, I could call him sometime and if he wasn't too busy he'd make an appointment with me. I called him at intervals of about every two weeks after that for three months and was turned down each time. Finally, he told me that I was becoming a nuisance and that he guessed he'd have to see me to get rid of me, and he made an appointment for the next day. From that point on the job was easier. He was a most reluctant prospect and didn't want to be sold anything just as he frankly told me the first time I saw him. He was a good prospect which was indicated by his mailing the card and not closing the door to me. He had to satisfy his own conscience that he was buying what he wanted and not being sold and when we reached that point he went all the way. We secured his will, insurance trust, living trust and a will from his wife. He has since sent me to see two of his friends whose business we have secured. Incidentally, this prospect had never before done any business whatever with our company. In my judgment, more progress was made with this prospect by phoning for an appointment after the first contact, than could have been made by personal calls.

Ascertaining What Service is Needed

The services of a trust company in the order of their salability are executorship and trusteeship under a last will and testament, the life insurance trust, the custodian arrangement—as we know it at the Guardian—the living trust and the business insurance trust. They are so closely related to each other that the salesman can usually sell more than one and often all of them to a single prospect.

The salesman opens his presentation to the prospect with general talk about his estate, as a whole, and points out the value of a definite program during his lifetime and after his death. Quite often the prospect will indicate his interest in one particular phase of the program and the salesman, taking his cue from this interest, uses that particular service as his means of attack. If the prospect doesn't react at all the salesman must decide which service he will present first. He will be governed largely by any advance information he has secured about the prospect. If the salesman knows or has reason to believe that the prospect has substantial enough holdings in securities to be a living trust prospect, he can use the living trust; or, if he knows or has reason to believe that the prospect has sufficient life insurance to be a life insurance trust prospect, he can use the insurance trust, and the same rule applies to a will or a business insurance trust. The salesman tries to find the prospect's most vulnerable spot and then concentrates on it. In any event, no matter which service the salesman describes first, he will outline the complete estate program. The prospect's interest will show the services that can be sold most readily.

The salesman assumes that his prospect knows nothing about trust service. He explains to him the organization and operation of a trust company; the fact that its officers and employees are specialists and skilled through training and experience in handling investments, real estate, tax problems, management, and Probate Court procedure; and that the company is equipped to handle the prospect's business no matter what the form or requirements may be; the fact that the trust company lives on

and is responsible to the State and that the State has set up protection for trust clients against the failure of the trust company, by segregating all trust assets from the company's assets and thus assuring the trust clients that even if the company should fail, the trust funds would remain intact and not be liable for any of the company's obligations. These and similar fundamentals, so familiar to all trust men, are the things that the prospect doesn't know and that should be explained to him. The salesman must sell trust companies in general and his own company thoroughly to the prospect.

The salesman is able to explain the reasons for creating trust funds; how they operate; the flexibility that can be secured in handling principal so that unforeseen emergencies can be met; personal contact with beneficiaries; group judgment on investments and so on through the many advantages of trust management; the necessity of making a will and the advantages of a corporate executor; the pitfalls that await the inexperienced widow or child left with an inheritance; the operation of life insurance trusts, the advantages of this plan over lump sum settlements and the difference between this plan and the optional settlements of insurance companies. All of these things and many more are the stock in trade of the trust salesman and he uses them constantly in his interviews.

Importance of the Personal Element

Many salesmen use a standard approach or sales talk. This is particularly true of the new salesman who is not absolutely sure of himself. So much of salesmanship depends on the personal element that the salesman should be governed by the prospect's reaction to his personality and approach in determining what presentation he will make. The salesman must therefore be mentally alert and able to take advantage of the slightest break or suggestion coming from the prospect. The salesman should never give the prospect the impression that he is being sold. Natural and easy conversation will produce better results than studied sales arguments.

Some time ago, I called on the President of a large corporation who did no business with us and had not expressed any interest in trust service. He gave me a courteous interview, but did not react to anything I said and was about to terminate the interview. I noticed a set of golf clubs standing in one corner of the office so in desperation I turned the conversation to golf. He immediately began to tell me about an indoor golf driving device that the golf pro at his club had patented and which he was helping to finance. He had one of the devices there and demonstrated to me just how it worked. He then handed his driver to me and asked me to try it. I took several swings at the ball and he then proceeded to give me a golf lesson. I left his office after an hour, having accomplished just two things—I had received a free golf lesson and had purchased an indoor golf driving device. However, I had made a real contact with him and a very good entree. The next time I called, he received me most cordially and it wasn't hard work to get his business. He sent me to see two elderly maiden lady friends of his and was largely instrumental in getting their business for me.

The salesman should be very cautious in asking questions about his prospect's personal affairs. If the prospect is interested and is handled properly he will volunteer most of the desired information or the salesman can secure it by indirect questions or suggestions. For instance, most men would resent a stranger walking into their offices and asking direct questions about their personal worth, but the salesman can get this information indirectly by talking about inheritance taxes and telling the prospect that in order to figure what his taxes will be, he will need to know the prospect's approximate worth. The salesman can get almost any desired information in this indirect way.

The salesman realizing that he has not entered his prospect's office to make a speech, endeavors at once to get his prospect to talk and this is best done by asking questions and giving the prospect a chance. The only time the salesman talks without the prospect joining is when the latter is starting to say "No" and to end the interview without hearing the full presentation. The salesman must, of course, use his judgment as to how far he can go in an interview of this sort, but many sales have been made after a prospect has said "No."

Completing the Transaction

When the salesman has sold an idea he must direct the progress of the transaction throughout. If he lets the prospect decide what the next move shall be, he will find in most cases that the prospect will never do it. He must tell the prospect just what he wants him to do, make definite appointments for interviews, set certain times when things shall be done and must then check up on the prospect to see that he does them.

It is always helpful for the salesman to submit to the client and his attorney a preliminary sketch of the set-up as he sees it, to be used in formulating the final plan. This tends to get things started and to overcome procrastination. The salesman keeps control of the business however, making appointments as the work progresses and pushing it through to completion. He must, of course, use the highest degree of diplomacy in making these arrangements. Every salesman knows that "The time to help yourself to the jam tarts is when they're bein' passed," and that when once the idea is sold and negotiations have started with the client and his attorney, the transaction must be promptly carried through to completion. Furthermore, this saves the time of every one concerned and reduces the cost to the company by eliminating extra interviews, phone calls and time.

After the arrangements have been completed the salesman gets the prospect's signature and completes the transaction either in the prospect's own

office or in the bank. The latter is preferable where it can be arranged, but in most cases the business can be closed better in the prospect's office. If the business is signed outside, the salesman brings the new client in to see the Trust Department and to meet the trust officers. He can possibly interest him in other services of the bank in this way.

Having secured a new trust client the salesman then solicits trust business from his wife and other members of his family. He also keeps in touch with the client from time to time to see that he is satisfied with his business and to secure leads from him from among his business associates and friends. If he is pleased with his business he no doubt likes to talk about it to his friends and many valuable leads are secured in this way.

The successful trust salesman, like every other successful man, has his job uppermost in mind at all times. He thinks about his work constantly and makes every contact count because, in his eyes, every one he meets is a trust prospect. His success will be largely determined by the number of contacts he makes and the number of people to whom he tells his story. The most successful salesmen do not, after selling one man, wait to get his business before going after some one else. They keep calling on new people all the time so that they have a constant flow of new business coming in and have prospects all the time in every stage of development.

The trust salesman is coming into his own. He has a new profession that is highly essential and that offers unlimited opportunities for service and advancement. Both large and small trust companies today realize that to live and grow they must systematically sell themselves to the public and that this is too big a task for their trust officers.

Discussion

Led by A. KEY FOSTER, *Asst. Trust Officer, Birmingham Trust & Savings Bank, Birmingham, Ala.*

WE have seen from the discussion that we have developed to the point in trust service where we are interested in securing trust solicitors. I think that Mr. Mills' presentation of the subject might well be used as the first step in training solicitors. If we should require any solicitors that we might find to measure up to Mr. Mills' requirements, to read his outline of what they are supposed to do, first, and learn it by heart, it would go a long way toward training them to be good solicitors.

Mr. Mills, your problem in the North is not very different from ours in the South, from what you have shown us in your talk, in this respect: no matter how much or how little our clients know about trusts, in the last analysis the salesman must sell himself to his client in order to get him to sign on the dotted line.

I should like to hear some discussion on the subject, for my own information, because I am frank to say that I am the new business department of my institution and it is sort of bearing down on my shoulders. I want to find a man who can do the things that Mr. Mills says can be done, without being put in the position of having to give him the presidency of the bank.

I should like to know, first, about the personality of this solicitor. He need not be a lawyer, Mr. Mills says, but he must know how to draw a will. He must know how to discuss with his clients all the phases of trust work. He must gain the client's confidence by inspiring him with his knowledge of his business. And he must be able to hit a golf ball with this trick apparatus that Mr. Mills mentioned. The next thing he suggests is that we get our leads from the ministers. I have tried the underwriters; I have tried the lawyers; but the minister is a new field.

The next thing I would like to talk about is following the transaction through to completion. I will appreciate it if anyone will give me some information along that line.

Getting the Name on the Dotted Line

JULIAN K. HOLMAN (Muscogee Bank & Trust Co., Columbus, Ga.): I want to join Mr. Foster in expressing a desire for some pertinent information as to closing. It is getting the name on the dotted line that really counts in building up a trust business. I frequently in my work run into this situation—I have one particular case in mind: a man is a prospect for your trust service, and you get your interview all right. He seems to be all that you desire. He expresses interest. He says, "All right, I think that is what I want. Here is what I want to accomplish. Here is my setup. I want to do certain things. You go back to the office and outline a plan that will fit my need, as you see it, and bring it back, and we will talk about it."

I go back and set that matter up as best I can, and go back to him. He joins in a discussion with me for a brief interval, but we don't get very far. He makes one or two suggestions and those changes are incorporated, and he says, "Now, you leave this with me for some further consideration. I want to talk with my wife and I want to talk with my lawyer about it. I will drop in at the bank within the next day or two and we will close it up."

Then it is a continual chasing down of that man, and yet I fear that I will lose his business if I ap-

pear too eager to close him. One time I approach him and he has a business date; another time he has a tooth extracted; and one thing or another prevents him from completing the transaction.

Out of Mr. Mills' experience, I should like to know if he can give me or the rest of us some sure-fire closing method. If he can, I would like to hear it.

Make the Agreement Suit

MR. MILLS: That is a tough one, Mr. Chairman; there isn't any secret that I know of as to exactly how you can get the signature. You have to get the agreement the way the client wants it. That is the first thing. Don't try to force your own ideas onto him. Make suggestions. Get the agreement so that he likes it. Make him admit that he likes it, that it is what he wants, and hand him a pen and say, "Sign it." That may not work. Often it does.

He may say, "No, I don't want to sign it now. I want to talk to my wife."

Then you say, "Well, that is true, and that is what I was going to suggest. I think you and I ought to both talk to her. When can I see her?"

Make an appointment to see the wife. That often works, although not always. When you see her, she may have some strenuous objections to this, and you may not sell it at all, but on the other hand she may want some changes in that agreement that the husband hadn't thought of, and you have to get the agreement to suit both of them.

The only thing that you can do is to force appointments wherever possible. You have to use your own judgment as to how far you can go in that, but don't let a man say, "I will do it some day." He never will. Point out to him that, if it is a will or insurance trust, he can always change it. There is nothing binding about it. He might step out and be hit by a Ford tomorrow, and if he is going to do it at all he might as well do it today. Force the issue of signing all the time.

The first thing you have to have is an agreement that he likes to sign, and then just keep that one thought in mind: that you want him to sign it and if he tries to put you off, try to pin him down.

Outside of that, I don't know of any secret with regard to getting the name on the dotted line.

CHAIRMAN GROOVER: Gentlemen, the next subject that is going to be discussed is really an important one. We all know that it is rather hard to keep the small balances in trust estates invested right up to the hilt, I mean amounts under $1,000—$300 or $400. It is the easiest thing in the world for those little balances to get into an estate and just stay there for an indefinite length of time. This question is going to be discussed by a man who is eminently qualified to discuss it. He is now writing a book for the A. I. B. on bank administration, and this talk is going to be included in that book. Without any further introduction, I will ask Mr. Fred Berger, of Norristown, Pennsylvania, to address the conference.

"WEALTH properly administered and properly spent is one of the greatest blessings to humanity. But wealth improperly administered and improperly spent may not only fail to bring us happiness but it may work absolute disaster. One of the greatest problems that you older men, you executives of institutions have to solve is that of producing and developing men who are going to be able to meet responsibilities. And for you younger men who are just starting out, there never has been a time when there were any brighter prospects than you have today, and you should use every ounce of brainpower that you possess, and every pound of energy that you can exert to fit yourselves and be thoroughly prepared to meet the responsibilities as they come."

GORDON L. GROOVER,

Vice-President and General Trust Officer, Citizens and Southern National Bank, Savannah, Ga.

(Presiding Officer, Second Session, Second Southern Trust Conference.)

The Pool Mortgage System

By G. FRED BERGER

Treasurer, Norristown-Penn Trust Company, Norristown, Pa.

To obtain for beneficiaries the greatest possible return within the limits of safety on the funds in trust, has long been the accepted duty of trust department officials. For trusts from $100,000 down, for which the largest gross income is desired, participation in pool mortgages offers many advantages.

Under the pool mortgage system, the banking department invests in first mortgages of the type eligible for trust investment, in sums varying from $100,000 to $500,000. Some of these mortgages are transferred to a trust department "mortgage pool" account. As an investment in the pool is made by an individual trust, a certificate of investment is issued to that specific trust and is filed with the other investments of that trust.

Among the advantages of the system are that it allows the immediate investment for income of all funds received and permits immediate liquidation of the trust when funds are needed, thereby insuring maximum income and assuring the permanency of that investment during the life of the trust. From the trust company standpoint, the pool system can be operated with much greater facility and lower operating cost than a system of participation in individual mortgages. Mr. Berger shows in detail how the system operates and also outlines its legal status in the ten Southern states.

THE restrictions placed by law around the class of investments eligible for trust funds have brought the securities which come within the limitations so much in demand that the income return on them has been low and is gradually becoming lower. In most every state in the Union, therefore, the type of investment which will yield the greatest return for trust funds is the real estate mortgage. Laws have been passed in nearly every state which require that such mortgages be first liens on the property securing them and with varying percentages the margin of safety in every instance is usually such that there is very little question with regard to the safety of the money so invested.

Most trust company and trust department officials have long ago accepted the creed that it is their duty to obtain for beneficiaries the greatest possible return within the limits of safety on the funds left in their care. A system of participation in mortgages, therefore, has gradually been built up so that trust funds will always obtain, wherever possible, the greatest return.

It is obvious that in the very largest of trust companies it is difficult to obtain eligible trust mortgages sufficient to meet the investment requirements of large amounts in trust funds. On the other hand, where these trusts are large, the question of taxation very often makes certain tax exempt securities which yield a much lower return, much more attractive for the investment of such trust funds. Trusts from $100,000 down are the ones in which the largest gross income is desired and they, therefore, should receive the greatest attention by the investing trust company officials. To such trusts, participations in individual mortgages are usually granted wherever such mortgages are available. There are, however, certain difficulties in the administration of a large volume of participations in mortgages such as the distribution of income received and the allocation of payments made on account of the principal of the mortgages which, where a large number of participations is involved, make their administration increasingly difficult. In several of our states, therefore, laws have been passed which allow the grouping or pooling of mortgages and the issue of certificates of interest to the individual trusts. It is of this particular type of trust investment procedure that this paper has to deal.

In order that proper consideration may be given to the subject our discussion will be divided into four parts. They are as follows:

1. What is the Pool Mortgage System and how does it operate?
2. What are its advantages and disadvantages?
3. Of what value is its installation and use?
4. Does it conform to the fiduciary laws in the states represented in the Southern Trust Conference?

1. The Pool Mortgage System in Operation

The trust company, in its banking department, invests in first mortgages of the type eligible for trust investment, which mortgages are carried under the heading of "Mortgages Owned." Certain of these mortgages, in sums equaling anywhere from $100,000 to $500,000, are transferred in the banking department controls from the "Mortgages Owned" Account to "Mortgage Pool" Account and as this transfer is made, a Certificate of Assignment, or a Declaration of Trust is executed by the officers of the banking department, definitely assigning all right, title and interest in this mortgage to the Trust Department of the company. Legally the assignment is to the trust company as trustee. These mortgages are then placed in a separate compartment under the control of the representatives of the Trust Department. At the same time the Trust Department sets up on its general ledger control an asset account under the heading of "Pool Mortgages" and a liability account "Due Banking Department for Pool Mortgages." Some states may require that a definite assignment of record, assigning from the bank to the Trust Department, be made. If this is so, it could easily be circumvented by having all mortgages run directly to the company as general trustee, the bank carrying interest in such investments to the extent in which the bank's own funds would be involved. This operation would be quite similar to the change made by the Federal Reserve Banks by which all discounts are now immediately placed in the hands of the Federal Reserve Agent rather than to have two separate operations within the bank.

A. Trust Investments.—The Trust Department General Ledger carries on its liability side control accounts of total trust investments, uninvested trust funds and all income due beneficiaries. It carries on its asset side control accounts representing the various types of investments made by the Trust Department such as mortgages, bonds, stocks and miscellaneous as well as the cash account representing the uninvested funds and income due beneficiaries, and in addition to this a per contra account, as already mentioned, of pool mortgages owned as an asset and a liability account of the amount owing the Banking Department.

As trust investments are made in the mortgage pool account, the Trust Department issues from the Pool Mortgage Account a Certificate of Investment to the individual trust which operation requires the following entries:—The liability to the trust for uninvested principal is reduced and the liability for investments is increased by similar amount. The control account on the asset side, of Mortgage Investments for Trusts, is increased and a check is issued against the cash balance, which check is paid to the Banking Department, thereby reducing the interest of the Banking Department in the Pool Mortgage Account. The per contra control of the Pool Mortgage Account on the General Ledger of the Trust Department is then reduced to correspond with the Banking Department interest in that account. This seems to be a rather large number of entries for a single transaction but actually when it becomes a matter of routine it is a comparatively simple control. The check given to the Banking Department against the trust balance may, if uninvested trust funds are carried in the Banking Department, be charged against that account. Otherwise it is a check on an outside bank in which the uninvested trust funds are deposited. In some states uninvested trust funds must be deposited in another institution.

It might be well at this time to call your attention to the fact that in some states it has been recommended that in place of the issue of a definite Certificate of Investment to the trust, a card record be made of such participation, thereby simplifying the bookkeeping. A great many institutions will find reason for criticism in this connection because the issue of a Certificate of Investment being signed and often countersigned by officers of the Trust Department, makes the possibility of manipulation much more remote. The Certificates of Investment, as they are issued, are listed in a register by corresponding number and as certificates are cancelled they are marked off the register so that a record of the open register items should always prove with the control account of mortgage certificates issued. It is advisable from an accounting viewpoint to issue only one certificate to each trust. When funds in a trust are decreased or increased the old certificate should be cancelled and a new certificate issued.

The Certificate of Investment issued to the individual trust is then filed with the other investments of that specific trust so that the Trust Department may comply with the legal requirements in keeping its trust investments entirely separate from all other assets.

B. Receipt and Payment of Income.—The Trust Department General Ledger carries an account under the caption of "Pool Mortgage Interest" Account. Into this account all interest received from mortgages in the pool is placed. It is customary for most banks to establish a definite interest period in all mortgages written, such as April and October, May and November, and so forth. For convenience in making payments to beneficiaries, the individual trusts are credited with income at regular stated periods, usually semi-annually, and this credit is made by charging the Mortgage Pool Interest Account and crediting the individual trusts for the

amount due them in accordance with the amount of the Certificates of Investment issued to them. The dates on which payment is made to the individual trusts are usually, for convenience sake, set about a month later than the collection date on mortgages. Thus income, through the collection of pool mortgage interest, has been placed in the Pool Mortgage Interest Account before payment to the trust accounts is made. This eliminates any overdraft in the Mortgage Pool Interest Account when payments are made to the individual trusts. It may be that a trust company now using the individual participation system does not have stated periods for the collection of its interest due on mortgages. If this is so, it does not necessarily prevent the use of the pool mortgage system, except that payments being made to the individual trusts at stated intervals, may temporarily overdraw the pool mortgage interest account, but as this is merely a bookkeeping transaction, no great harm is done.

C. Cancellation of Certificates of Investment.—When the trust is to be distributed the transaction is completed by having the bank pay the Trust Department the amount of the certificate to be cancelled (or any portion of it). The bank's interest in the Pool Mortgage Account is thereby increased by the amount of the cancellation. The entry in this circumstance is merely a reversal of the entry creating the Mortgage Certificate and would be as follows: In the control account of the individual trusts, Trust Investments would be decreased and uninvested principal increased. On the asset side, Mortgage Investments would be decreased and the cash balance of the Trust Department would be increased, after which the pool per contra accounts would again be adjusted to increase the bank's interest in pool mortgages, the certificate, itself, being marked off the register and cancelled.

D. Payment of Interest to the Bank.—During each interest interval the Banking Department has been carrying a definite participation in pool mortgages at all times and at the same time that payment is made to the individual trusts interest is usually paid to the bank based on its share in the pool mortgages as shown by the daily balances. If the Banking Department is on an accrual basis, it may collect from the Trust Department monthly or quarterly, the Trust Department merely charging Pool Mortgage Interest Account for the amount paid and reducing its Cash Balance giving the bank a check for the amount of interest due. Here again the matter of the periods at which interest is paid is always a question which can be arranged to the convenience of both departments. It might be advisable to mention here that the Banking Department General Ledger is usually checked against the Trust Department General Ledger daily by the Auditing Department to prove the correctness of the Pool Mortgage Control Accounts.

The above has represented a comparatively brief description of the operation of the pool mortgage system.

2. Advantages and Disadvantages of the Pool Mortgage System

It is now advisable to take up the question of the advantages and disadvantages in the operation of the Pool Mortgage System. The advantages being far greater than the disadvantages, let us consider the disadvantages first and then take up the question of the advantages.

A. Disadvantages.—(1) For the Individual Trust: The fact that there is no definite control over an individual property in that there is no definite participation in a given mortgage might well be considered a disadvantage. It might be considered that there is a further disadvantage in that the individual trust would have no control over substitutions but when one considers that all of the mortgages in the pool must be eligible for trust investment, this objection is removed.

(2) For the Trust Department: In a case where individual participations are given and there is a loss on a mortgage the Trust Department might have the legal right to apportion that loss against the participating trusts.

The above mentioned disadvantages, while legally important, lose a great deal of their significance when practically considered. The legal right to apportion the loss against individual participating trusts and the value to the trusts of a control over the individual properties lose their importance when, in the light of experience, it is well known that a trust company would hardly adopt a policy of charging such a loss against individual trusts in the face of keen competition for trust business and the moral obligation which a Trust Department has, to eliminate the possibility of loss of principal to the individual trusts when investments have been made by the Trust Department.

B. Advantages.—(1) For the Individual Trust: The pool mortgage system enables the Trust Department to invest immediately for income, whether the amount is in even hundreds or thousands or not, the principal amount received, thereby insuring maximum income to beneficiaries at all times. The advertising value of such a feature from the point of view of the trust company is also important. The pool mortgage system allows of immediate liquidation of the trust when funds are needed and thereby assures the beneficiaries that the capital funds of the trust will be invested for the longest possible period.

(2) For the Trust Department: Because of the simplicity in bookkeeping, the operation of the pool mortgage system may be accomplished with a minimum of labor and cost. If the state laws do not in-

tervene, the Loan Department of a bank may handle all mortgage entries, collecting both the interest on company mortgages and the interest on pool mortgages, and should the law intervene, there is no reason why the reverse should not be true and the Trust Department handle all mortgage transactions, thereby eliminating cost from the Banking Department whose only interest would be the receipt of income from its interest in the pool mortgage system. In either event the company is the gainer.

Under the pool mortgage system, the control of mortgage investments, the receipt of partial payments of principal and the collection of income on mortgage investments are transactions entirely separate and distinct from the payment of income to the individual trusts. It places the bank, or Trust Department, in a position of having the entire amount of partial payments made on various mortgages available for investment in new mortgages and insofar as interest income is concerned it is credited into the account known as the "Mortgage Pool Interest" Account. Insofar as income due the trust is concerned this is again an entirely separate transaction, income being paid to the trust from the Mortgage Pool Interest Account only at stated intervals (except where some special agreement with an individual trust might be made). It regulates the payment of income to the individual trusts by making that payment at regular intervals and it eliminates the need for apportioning, as in the case of participations against individual mortgages, of both income and partial payments received among the various participants who might be interested, the latter transaction being a rather involved one in the case of a large mortgage with many participating trusts.

3. The Value of the System

Having discussed the advantages and disadvantages of the adoption of the pool mortgage system, it might be well to consider briefly why the system should be adopted.

The greater proportion of the funds which are left with trust companies in their fiduciary capacities belong to individuals who have need for the greatest return possible from the investment of those funds. Any system which will allow, as does the pool mortgage system, the immediate investment for income of all funds received and assure the permanency of that investment during the life of the trust is a system well worth the consideration of trust company officials. Where this system in addition can be operated with much greater facility (and consequent lower operating costs) than a system of participations in individual mortgages, the advantage from the point of view of the trust company is not difficult to see. There may be some states where the trust companies operate under laws similar to those of Michigan where no Commercial or Banking Department is allowed. Even in such instances, the capital funds of the trust company, or a good portion of them, may represent the company's interest in pool mortgages and purchase from the company's interest for trust investment and sale to the company's interest for trust liquidation may be carried on in just the same way and with just as much facility as if the transactions were being carried on with a banking department in the same institution. The main questions involved are maximum return to trusts and minimum operating costs. There can be no doubt that the pool mortgage system, properly operated, insures maximum return to trusts, and those trust companies which have already adopted the mortgage pool system are invariable witnesses to the fact that its operating costs are much lower than the cost of operating individual mortgage participations.

4. Legal Status of the Pool Mortgage System

Finally it becomes a question of whether or not the laws of the states represented in this conference will allow of the adoption of the pool mortgage system. A careful investigation shows that in the Southern states the following is the case:

Alabama

There is apparently no law against the pooling of trust company mortgages in the State of Alabama and apparently there is no pooling of mortgages done in that state. No information could be obtained as to whether steps are being taken to make such investments legal.

Florida

Present laws in Florida would make it doubtful that they could be construed to include for trust companies the right to include Participation or Trustee Certificates as legal trust investments for trust funds. It is planned to take some steps in this direction by the local bankers association.

Georgia

The Georgia fiduciary laws would apparently allow such investments to be made under the order of a Judge of the Superior Court.

Kentucky

There is no law prohibiting the pooling of mortgages and the issuing of participating certificates eligible for trust investment and several of the larger trust companies in the State of Kentucky are now operating under such a system.

Louisiana

There is no prohibition in the laws of Louisiana against the issuing of Trust Fund Certificates to individual trusts as a participation in a general pooling of mortgages which would be individually eligible for trust fund investment. While the matter has not as yet been submitted to the Attorney General of the State, the pooling of mortgages and

the issuing of Trust Certificates is being practised by a number of trust companies.

Mississippi

There is apparently nothing in the fiduciary laws of the State of Mississippi which would prevent the adoption of the pool mortgage system.

North Carolina

There is no legislation in North Carolina dealing with the subject of pool mortgages and it is doubtful whether the pooling of mortgages as mentioned in this paper, is being practised. Several mortgage companies are following the general practise but the question of the legality of pool mortgages in trust companies has apparently never been raised.

South Carolina

The banking laws of South Carolina very definitely allow of a system of pooling mortgages.

Tennessee

There are no statutes covering the pool mortgage system in the banking laws of Tennessee and it is being practised by several of the larger banks in that state.

Virginia

Investigation shows that apparently the laws of Virginia do not allow the pooling of mortgages for trust investment purposes. No information was obtained as to whether steps are being taken to legalize the practice.

Whatever the future of the pool mortgage system may be in the states represented in this Southern Trust Conference it is to be hoped that the experience of the companies which will operate such departments will be as successful as has been that of the banks in other sections of the country. It is certain that with the adoption of such a system and careful education of the public through advertising and direct mail media, remaindermen or beneficiaries will be much better served and that the tendency here in the South will be, as it is now in Pennsylvania, New York and Massachusetts and many other states toward the appointment of trust companies as executors and trustees by a continually increasing number of individuals.

Discussion

Led by WM. MATTHEWS, *Assistant Trust Officer, Fulton National Bank, Atlanta, Ga.*

Appraising Values in Pool Mortgages

MR. BERGER has so completely covered his subject that it seems really useless to ask him any questions. There is one, though, that I would like to ask him. I would like to find out what his bank does in its preparation for the buying of these mortgages. He has told us how he handles the pool mortgages, but what standard of measurement, or what appraisals of property values or income does his trust department take into account before these mortgages are purchased?

MR. BERGER: Of course, the appraising of property depends a great deal on the ability of the people involved in the management of the bank. Let's put it this way: In certain states, the fiduciary laws definitely state the percentage of value, margin of safety, if you will, which must be required in the investment and trust mortgages. For instance, in New York, the law says that there must be at least a 50 per cent margin or, in other words, a mortgage may be two-thirds of the appraised value. In Pennsylvania there is not a definite law with regard to that so we have set our own standard. We don't on a first mortgage go beyond 60 per cent under any circumstances and mostly we stick very close to 50 per cent.

So that it is very difficult, unless the law specifically states it, to definitely answer your question, except to say this: that if the management of your banking department is careful you will not have many first mortgage loans which are not eligible for trust investment.

G. G. FOSKETT (Cashier, Southern Trust Co., Clarksville, Tenn.): I am using this pool mortgage system in my trust company for the participation of small trusts, but there is one question that arises from time to time that I should like to get your opinion on, in order that the point may be cleared up in my mind.

Small Certificates Changed Monthly

I have in mind certain guardianships in which we are collecting certain sums from the government monthly. Do you change your participation certificates each month? Do you increase those participation certificates each month as that principal is collected, or do you hold them over a period of months, and then change them?

MR. BERGER: In order to be able to answer your

question properly, I want to ask this. How much is involved each month in the amount of those?

MR. FOSKETT: It varies from $20 to $100.

MR. BERGER: This is our practice, and it is carried out almost invariably: that regardless of the sum, unless it is very small, we make the investment. In other words, we feel that regardless of the cost of certificates, and regardless of the time it takes, our trusts are entitled to our word, which says that we will invest up to the limit of invested funds all of the principal of the estate.

MR. FOSKETT: You make a change monthly?

MR. BERGER: Absolutely. Of course, if something came in that amounted to around $20 I doubt very much if we would do it, but if it is an amount of any size that would involve the trust, $50 or over, we are bound to do it by our own standard.

MR. FOSKETT: I have been following that practice but it means that the participation certificates are issued so often.

MR. BERGER: That is quite right, but we feel that we have promised that and we stick to it.

Rate of Interest on Loans

MR. ZUKOSKI: Are your mortgage loans all made at the same rate of interest?

MR. BERGER: Our mortgage loans at present are all made at 6 per cent. We have made our own arrangements, however, for a shift in that rate, should it be necessary, and we will issue a new pool, based on a new rate, if it is necessary to reduce it.

MR. ZUKOSKI: But you keep all mortgages of a given rate in a pool?

MR. BERGER: Yes.

MR. ZUKOSKI: Suppose that you invest $500 one month and $1,000 another month and $2,000 the third month. You would figure back, then, at the interest period and calculate the total amount of interest due?

MR. BERGER: Quite right, the same as you would on average daily balances.

Rule Against Mingling Trust Assets

MR. ZUKOSKI: You referred, in mentioning the laws of the different states, to the statutory provisions. I imagine you have given consideration to the general rule against mingling trust assets.

MR. BERGER: Yes, but in my particular comments I discussed the fact that your pool mortgages are immediately eliminated from the other assets of your bank. In other words, as soon as mortgages are set aside in a pool they are definitely set aside from the assets.

MR. ZUKOSKI: I understand that, but at the same time you have a whole group of mortgages mingled, and the beneficiary can't point to any specific property, unless you consider the whole thing.

MR. BERGER: Quite right. Therefore, it is a question as to whether the laws of your state do definitely rule for or against your right—

MR. ZUKOSKI: I mean, in the absence of statutory provision.

MR. BERGER: In the absence of statutory provision against it, the banks in the states are usually doing it.

MR. ZUKOSKI: You think it is legal?

MR. BERGER: I see no reason why it isn't. Let's put it this way: If I were operating in a different state than Pennsylvania and there were a law against it, I would be doing it.

MR. ZUKOSKI: You don't take a special authority in the instruments that you draw, or have drawn for you, authorizing that investment, that is, an investment in this mortgage pool?

MR. BERGER: It doesn't make any difference—

MR. ZUKOSKI: That is, you regard it as perfectly feasible and proper, whether or not you have specific authority?

MR. BERGER: Absolutely, because we don't need specific authority as long as we are dealing in mortgages which are eligible for trust investment. The minute we stop that then we will hear plenty from our own banking department.

B. T. DICKSON (Trust Officer, National Union Bank, Rock Hill, S. C.): Mr. Berger stated that instead of issuing these participation certificates, quite a bit of work was saved by having a card record of the participations. Does that comply with the Federal Reserve requirement with regard to keeping separate the funds of each trust?

MR. BERGER: The card record has nothing to do with the requirement of the Federal Reserve System, because if your card record takes the place of that certificate there is no reason why you can't make your memorandum in your trust investment and point to that card record. I see no reason why that should be objected to. In fact, it hasn't been in the few banks that have adopted the card record.

How to Develop the Life Insurance Trust in the South

By LESLIE G. McDOUALL
Associate Trust Officer, Fidelity Union Trust Company, Newark, N. J.

Considering that the conditions in the South do not differ materially from those in his own community, Mr. McDouall narrates the various steps taken by the company with which he is associated, in developing the life insurance trust.

These included a preliminary year of research, the introduction of the plan to the life underwriters at a luncheon, the holding of an annual dinner for the underwriters, a five-year newspaper advertising campaign, a course of six lectures for the underwriters, and the distribution to underwriters attending the course, of a leather-bound loose-leaf service.

That the advantages in this cooperation are not all with the trust company is shown by the fact that a trust officer, when called in by a life underwriter, frequently influences the sale of life insurance.

The life insurance trust is coming to be recognized generally as an essential part of an estate program, and as the perfect complement of a well-drawn will. There are, of course, exceptions to every rule. Sometimes the rigidity of a fixed income through the settlement options of the insurance company is desired by the client rather than the flexibility of the life insurance trust.

Recommendations must be rendered on the basis of the particular conditions involved. The test is what is best in the interest of the insured, the client's welfare being the ultimate purpose served.

IT would be a presumption on my part, were I to assume that I could tell you how to develop the life insurance trust in the South unless you will permit me to recite, perhaps in some detail, the reasons why we decided to introduce the life insurance trust to our Community—in the hope that you may be interested in our experiences. While we have in the Newark territory an excellent field for all types of personal trust business, I know of no peculiar conditions there which would make our problems materially different from yours; and I do not doubt that you have an equally good and probably a similar opportunity for the extension of life insurance trust service.

For such success as has attended our own efforts to further the life insurance trust, our company and our community are indebted to the foresight of Uzal H. McCarter, our President, and our Edward A. Pruden, Vice-President and Trust Officer, who several years ago attended a convention where this type of trust was briefly discussed. In this form of trust, they, Mr. McCarter and Mr. Pruden, recognized an opportunity not merely to increase our business, but also to be of great usefulness to the territory which we serve. Since it is true that a substantial portion of the estates which are left each year are represented by life insurance proceeds, my company felt it an economic duty to extend and further its facilities by providing a form of trust to conserve these proceeds of life insurance policies.

Preliminary Study

Frankly, gentlemen, we studied this matter of deliberately instituting the policy of endorsing life insurance trusts and encouraging their creation for a year before we made public our decision. We examined agreements of all kinds from every point of view and we carefully considered the feasibility of the whole plan. This research work was delegated to me. You will find, I think, that you will accomplish the most satisfactory results if you will make one officer responsible for the undertaking.

In order to understand the nature of the business which we proposed to secure we had to know something about the insurance world and we had to become familiar with the point of view of the life insurance underwriter. I spent some time during the years 1922-1923 reading books dealing with various phases of the life insurance business, and I supplemented my study by daily conversations with representative insurance men in Newark. As the development has progressed we realize more and more how important it is for our company or any other bank actively engaged in this business to insist that its officers be thoroughly conversant

with life insurance, the practices of that business, the types of policy which are written, and particularly the problems which confront the underwriter.

After our year of research we felt that we were in a position to intelligently cooperate with the real source of insurance trust business—the principal source of this business, gentlemen, is the man who is selling life insurance and who is sufficiently interested in his policyholders to care what happens to their beneficiaries.

Introducing Plan to Life Underwriters

In October, 1923, we introduced our plan to the life underwriters of Newark at a luncheon where they were entertained as our guests. At that luncheon, which was addressed by representative insurance men as well as by our President and certain of our officers, we announced our belief in the life insurance trust as a vital part of the insured's estate program; we stated our endorsement of the institution of life insurance; we offered to cooperate with underwriters in the sale of insurance and creation of trusts, and finally we made the following promises which we have religiously kept.

FIRST: We have no intention of competing with life insurance men in any way, nor will our institution ever engage in the insurance business. Furthermore, no officer or employee of ours will write life insurance or hold a commission to write life insurance while he remains in our employ.

SECOND: We will not cooperate with any agency or group of agents to the exclusion of any others. Our services are available to all underwriters in good standing.

It is now our practice to have an annual dinner at which the life underwriters of Newark are our guests. We have had outstanding men in the insurance business from different parts of the country attend and address these dinners at which Mr. McCarter or Mr. Scheerer, our Chairman, preside and reaffirm our faith in the cooperation between trust companies and the great institution of life insurance.

Advertising Campaign

Throughout the past five years my company has advertised life insurance and the creation of trusts to conserve it. These advertisements have appeared over our signature in local newspapers and have served the purposes of educating the public, encouraging the purchase of insurance, defining the life insurance trust, and earning the confidence of the underwriter. Copies of these advertisements are on display here as well as other printed matter that we have used. If you feel that any of this material would be useful to you in your localities, it will be a pleasure to us to have you use it as you may see fit. I particularly commend to you the newspaper advertisements appearing under the titles "We Believe in Life Insurance," "Have You Had Your Life Insured," "Are You Carrying All the Insurance You Can?," "What is Your Opinion of Life Insurance?—A Banker's Answer," "How You Can Build Your Estate Toward One Financial Goal" and "This Bank Does Not Sell Life Insurance."

We are committed to the policy of endorsing life insurance and we have consistently encouraged the underwriter to consider trust service as an indispensable aid to his business and his clients. We constantly encourage insurance men to call upon us for assistance in writing life insurance and to urge their policyholders to obtain the advice of trust men in planning the disposition of their estates.

I have attempted to tell you why we undertook to institute the life insurance trust in New Jersey and how we launched our campaign. At the risk of repeating myself, may I once more urge upon you the seriousness of qualifying ourselves to properly cooperate with our good friends in the insurance field by a study of their business, which in our experience should be delegated to one officer who will give the subject the time its importance deserves.

A Course for Underwriters

On the other hand we have found that the life underwriter should be equipped with some knowledge of the trust business and a sympathetic understanding of our problems. Accordingly we devised and presented a course to Newark underwriters, consisting of six one hour meetings on six consecutive Wednesday afternoons last fall. The first three meetings were addressed by Mr. D. L. Campbell, of Hood, Lafferty & Campbell, our General Counsel, and the last three by three officers of our company. Approximately forty minutes of each hour were given to the speaker, and the remaining twenty to a discussion in which those who attended questioned the speaker as they saw fit. The subjects of the six meetings in the order presented were—"Intestacy—Descent and Distribution of Property by Statute in New Jersey"; "Wills. Testate Distribution"; "Trusts. Voluntary and Testamentary"; "Taxation, Income and Inheritance"; "Administration Procedure"; and "Cooperation." We had the Master Reporting Company make a stenotype record of the proceedings which will be distributed as a part of a leather-bound loose-leaf service to those insurance men who attended the course. Our attendance averaged nearly three hundred.

You may have obtained the impression by this time that we have spent an unusual amount of time and effort in cultivating the acquaintance of life insurance men. We have done exactly that and are continuing to do everything we can to merit their confidence.

The first major conclusions that I am anxious to convey to you are, first, the salesman of the life insurance policy is really the man who can influence the insured to make that policy payable to your bank under a trust agreement, and second, without the cooperation of the insurance salesman you can never hope to secure a substantial amount of this business.

Results Accomplished

Let me tell you something about the results we have accomplished. During the fifteen months that followed our first formal meeting with the underwriters we closed only $1,800,000 of insurance trusts. It is not exceptional now to see that amount of insurance made payable to us in one month. During the year of 1928 the life insurance which came to us under trust agreements amounted to one-half of the total insurance trusts we had obtained in the preceding four years. Furthermore, sixty-five per cent of the people from whom we obtained trust business last year—life insurance trusts and will appointments—were introduced to us by insurance men.

Now I must make it very clear to you that I am speaking of the results of five years of hard work. We did not accomplish our ends in a few months, a year or two years. If you are going to undertake a program such as we have followed you may just as well face the fact that it will require a period of years to realize gratifying results. Only by coordinating your publicity efforts and your personal contacts can you win the absolute confidence of the insurance men in your localities. But when you have, you enjoy the pleasant experience of having new customers introduced to you who have already been interested in trust srvice by their insurance advisers.

Helpful to Underwriters

The advantages in this cooperation are not all with the trust company. We have been a means of encouraging the purchase of life insurance through our publicity, and, more directly, we frequently influence the sale of life insurance in cases where the underwriter calls us in. This is a typical example: A few days ago Mr. Lieberich of the John Hancock Mutual, Vice-President of the Newark Life Underwriters Association, telephoned us saying that he had interested a policyholder of his in planning the disposition of his estate. He suggested that he make an appointment for one of our men to accompany him to his client's office. We readily agreed and the appointment was made. In the interview our representative obtained an inventory of the man's estate—we always ask a customer to supply us with this information in order that we may intelligently submit our suggestions. Analysis of the estate in the customer's presence revealed that to defray all administration expenses, taxation, and to have enough cash to retire his average line of credit at his bank, as well as the cancellation of a mortgage on one of his properties, he wished paid in the event of his death, his executor would need another $30,000 in cash. When these facts were presented to him by the trust man he signed an application for the additional insurance. The final outcome was that we worked out an estate plan which benefited the customer, we obtained the will appointment along with a life insurance trust, and Mr. Lieberich earned the commission on a justifiable sale of insurance. Last year in just such instances as these we were the means of effecting the sale of $1,281,793 of life insurance—legitimate business which has gone to the underwriters who brought us into contact with the purchasers. I have often advised insurance men who have come to my office and asked me how the trust company can help them to review the cases where they have sold insurance during previous years, with a view to determining whether a life insurance trust would not be advisable. In doing so it usually develops that the insurance carried is inadequate. The result is additional business for the underwriter, by the simple expedient of a return call to discuss estate plans.

The New Business Department

In my company we have a New Business Department which is made up of four experienced trust men who devote their entire time to the production of trust business. Another member of that department, who is by training a credit man, solicits desirable commercial accounts. The department is under an Assistant Vice-President of the company, and also includes the Assistant Advertising Manager in its personnel.

The question of whether your bank should employ one or two men to organize and run a New Business Department, and carry on the cooperative insurance trust work is a matter depending on local problems. I know one bank—in a community near Newark—with deposits of $1,500,000, which employs a full time new business man, and feels that he is a necessary part of the bank's organization. Not all of you will want to do this, nor is it necessary in the beginning. We have no better precedent for this than our own experience. Our insurance trust work had its inception among the operating men in the Trust Department, and our New Business Department was not organized until it was well under way. Most of us are capable of taking on a little extra work. It is a matter of making up one's mind to the seriousness of the need. If you, yourself, will make the acquaintance of your local insurance men, seek opportunities to cultivate them—an interesting way to do this, by the way, is to phone them occasionally and ask them a hypothetical question about their companies' policies—study the subject of life insurance, the various types of policies offered, and above all invite the insurance men to bring their prospects to your office or make an appointment for you to go to their office for a joint interview, then you alone and unaided by a separate New Business Department can do wonders towards getting the movement under way without spending an extra dollar.

An Essential Part of an Estate Program

To return to the life insurance trust—most of us at first thought of this new type of trust simply as nice clean business which would come to us in cash, involving none of the complex problems which the estates proper frequently bring with them. The

next phase in the evolution of our mental attitude toward the insurance trust was to regard it as something new to suggest to the prospect, with a view to ultimately turning the conversation to the matter of his will. I believe we have really thought it through, now, when we realize that the life insurance trust is an essential part of the program which it is up to us to work out for every client who puts himself in our hands.

One of our most important obligations as trust men is planning the disposition of estates of those who call upon us for advice. But if we do not take life insurance—probably a substantial portion of each estate—into consideration we are not doing a complete job and our advice is wholly inadequate.

The fact of the matter is that life insurance is carried for two principal purposes—(1) to create a fund which at death may be invested to yield an income that in some measure will replace the insured's earning power, and (2) to provide available cash which may be used to pay debts, taxes, and administration expenses, obviating a forced sacrifice of the estate's prime assets. Unless life insurance is made payable directly to the estate, thereby subjecting the proceeds to taxation and the expenses of administration, the only other means of allowing life insurance to serve both of these all important purposes is the life insurance trust. Through the clause which should be written into every insurance trust agreement authorizing the trustee to invest a portion of the donor's insurance proceeds in securities owned by his estate, cash is made available to the executor to defray the expenses entailed by death. The conclusion is inescapable—the life insurance trust is the perfect complement of a well drawn will. I often wonder that we did not develop this type of trust long before we did.

The Ultimate Test

There are, however, exceptions to the rule. We do not always recommend that insurance be made payable through the trust company. Our recommendations are always rendered on the basis of the particular conditions involved, and there are many cases that can be well handled through the life insurance company plan. After all, the test is what is best in the interest of the insured. It must always be remembered that the ultimate purpose we serve is the client's welfare. We are not competing with the insurance companies. We are cooperating with them, supplementing their service when local management, centralization of responsibility, flexibility of administration and other things which the insurance companies do not afford, are desired.

The customer whose problem can be solved for him by the insurance companies themselves through their settlement options does not want flexibility. For example, he may want to provide a fixed income for his wife for life, which if he has no children is sufficient since he then has no interest in preserving the principal for remaindermen. But the man who has children to provide for and who owns an estate that must be protected against forced liquidation in the event of his death is in a very different position. He needs flexibility and he must have his insurance available for the purpose of paying debts, taxes, and administration expenses. For him the life insurance trust is an ideal solution. The first man wants rigidity and we should tell him so. Others need a flexible arrangement which the life insurance trust affords.

The business life insurance trust I shall not attempt to discuss because it was the subject of one entire meeting at the Trust Company Division Conference in New York last winter and has been very ably described in Life Insurance Trust Bulletin No. 3, issued by the Trust Company Division. This Bulletin is in my opinion one of the most complete documents dealing with the matter of business life insurance and business trust agreements that has been compiled, and I urge you to read it carefully if you have not already done so.

It is my understanding that there is to be an open forum at the conclusion of my remarks, in which I shall have an opportunity to talk with you informally about any questions regarding the life insurance trust or the business life insurance trust arrangement that may be raised—within the limits of my ability to do so. With your permission I shall conclude by defining for you what we mean by "Planning an Estate Toward One Financial Goal," and describing to you the clauses in a life insurance trust agreement that for reasons peculiarly personal to me I regard as ideal.

Discussion

Led by CHARLTON F. DREW, *Manager, Guardian Life Insurance Company of America, Atlanta, Ga.*

ONE of the most interesting facts brought out by Mr. McDouall is that this business cannot be learned in five minutes, or in five days. I think he has struck the figure five years. So, with due respect to Mr. McDouall, in the next few moments I am sure that he would like to cover every phase of life insurance trusts and of underwriting possibly, but it will be impossible for him to cover more than the high spots, and it is up to you to ask of Mr. McDouall those questions that have come to your minds and those points that are not clear to you.

H. F. PELHAM (Vice-President, Citizens & South-

ern National Bank, Atlanta, Ga.): Mr. McDouall, would you illustrate in a graphic way some of these points that you have in mind?

MR. MCDOUALL: I want to develop this one thought—the programming of estates to one financial goal. There is a solution of the sales problem in developing business both from the standpoint of the fiduciary institution and from that of the underwriter. In our institution, we like to analyze, first, the estate line (A).

Diagram 1.

What I am about to offer is based upon the case of a certain Mr. X, who owns $100,000 of life insurance and other property valued at $50,000. He has a wife aged forty and two children—a son aged twelve and a daughter aged nine. He owes his bank $25,000 amply secured by high grade securities. He seeks the advice of a trust officer regarding the wise distribution of his estate. The illustration now looks as follows:

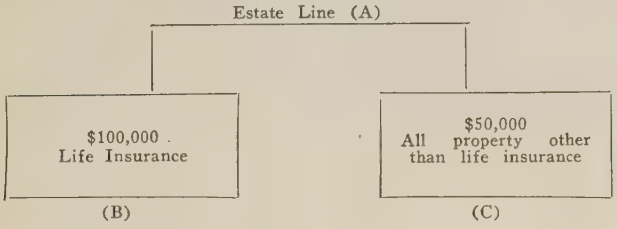


Diagram 2.

What do we develop out of the estate line? I find over here (B) $100,000 of life insurance. Then I find another estate, we will say, of $50,000 (C), which consists of all other property, that is, all property other than my life insurance.

What is your duty to the prospect? The analysis in this case is one frequently used in our work in Newark. First, in the State of New Jersey, real property, when held in the form known as tenancy by the entirety, passes to the survivor; and if that situation exists in your own State, there may be a suggestion in what I am about to offer. We will assume that the wife of our customer survives; therefore, she becomes sole owner of the real property free of any New Jersey transfer inheritance tax. Also, immediately upon the death of the insured this asset (B), life insurance, is created, but there also is created a liability over here (C) for the payment to the bank of collateral loans, debts and other expenses.

The next question is, Is there a mortgage on the real property, and how should that mortgage be treated?

On Mr. X's death, there will be payable to his trustee $100,000 of life insurance proceeds under a trust agreement which provides as follows: for the trustee to collect and, upon the wife's written request, should there be a mortgage on the property which the insured occupied at the time of his death, the trustee is directed to purchase said mortgage by assignment and to hold it as a part of the trust. What is the effect of such a provision? The home is financed, and there is no worry as to what to do about the mortgage.

Next, if the insured's wife is going to carry along the family's program started some years ago, it will require income. The life insurance fund (B) is useless until it is invested. So the first thing suggested is that the agreement shall direct that the income shall be paid to the wife so long as she shall live, charging her, however, with the proper maintenance, education and support of the children. Why? We certainly don't want to say in the agreement, as so many men do, that should the wife remarry, then the income ceases. No, because, after all, the objects of the wife's bounty are the same as the husband's—their two children.

Provision for Use of Principal

But suppose a condition arises after death that has arisen while the customer lived. The income to be obtained from the estate (B) and (C), would be ample under average conditions. But what is Mrs. X to do if an unforeseen emergency arises, or when the time comes for the education of the children? It is human nature to live up to income. If she does, where would she carve out of this stated income, with two children, three years apart in age, perhaps an additional four or five thousand dollars for educational purposes? It isn't to be expected that she could. But if this life insurance (B) is to replace Mr. X's earning capacity, or his human life value, then there should be a provision in the agreement that will provide for use of principal. This is the way to do it. Provide that in addition to the income, Mrs. X shall have the right to withdraw from the principal, upon her written request therefor, a sum not exceeding three per cent of the original principal (B) in any one year.

Mrs. X has the income and the right to use the principal, and is the sole judge of whether she needs it or not. If she withdrew the three per cent each and every year, the fund would last for thirty-three years and would outlive, I think, her expectancy.

The next thing to consider is: What is to happen to the fund (B) in the event of her death? Provide for passing it on, but continue it in trust, directing the trustee to pay and expend the income for the maintenance, education and support of the children during minority. As the children reach the age of twenty-one, they are to receive the income. The son is to receive one-half of the principal at thirty and one-half at thirty-five. On the other hand, the life provision also applies to the daughter, that is the daughter will receive the income for life, with the principal to be distributed as she may direct by her last will and testament.

Son and Daughter Provided for Differently

Why the two different methods of distribution between the daughter and the son? My nineteen

years' experience in trust work dictates to me convincingly that the great value of capital to the average woman is the income that it will produce, and if that is also your belief you are bound to trustee the portion of your estate that is to pass to a daughter. I feel differently about a son. There is an age of discretion when perhaps capital may be used by a son to make more money. If Mr. X's boy follows through the educational program that Mr. X has attempted personally to provide for him, certainly, at twenty-five he will not have reached an age of discretion to handle money. It isn't fair to impose that burden upon him. So Mr. X extends the time for his son to receive one-half of his capital to age thirty, when the son will have at least five or six years of business experience, and by that time his ability to handle the capital would have been tested. The balance of his capital will be paid to him at age thirty-five.

As to the daughter's share, Mr. X does make provision that she may take a portion of the principal, but only in one event. He has provided that should she marry after the death of Mrs. X and himself, ten days prior to the date set for her wedding, she shall receive from her share of the principal as a wedding gift from her mother and himself the sum of $5,000.

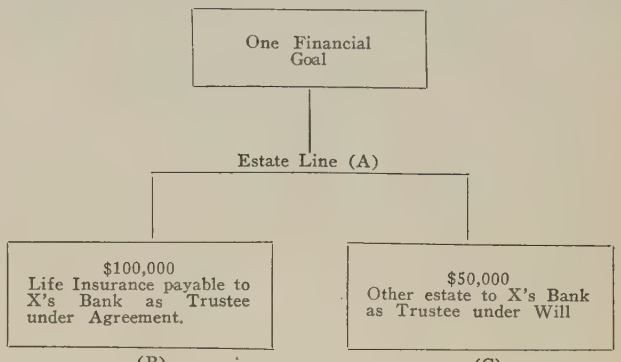
That program is an ideal one, and has helped close millions of dollars of trust business for my company. Why? Because it is human, and that is the important thing. That is your job and mine: to make these life insurance trust agreements human, and that is the place where so many of us fail. We grind them out as in a mill—set trusts. You can't do it successfully. You must study the problem of each customer.

Payment of Debts and Taxes

What is all this for? There were $25,000 of loans. Mr. X's life insurance will create an asset at his death, but the liability for loans, debts, etc., matures. He didn't want to make his life insurance payable to his estate for many reasons, tax and otherwise. Under the trust agreement it should be provided that "the trustee may or shall have power to purchase from the executor of the grantor's estate any securities of which he may die seized, and/or the trustee may or shall have power to make loans to the executor of the grantor's estate to be collaterally secured at the legal rate of interest". So what has been done in Mr. X's case? He has made his life insurance (B) protect his other estate (C).

Now, then, I argue, How better can that fund (B) be invested than by buying from his estate (C) those prime, liquid, marketable securities, which will have to be liquidated in order to raise cash. In so doing, Mr. X provides for bringing the choicest of securities of the estate over into this trust (B), and for bringing the cash over into the estate (C) for liquidation purposes.

What is the purpose of it all? If you read the insurance trust agreement, and if you read the trust provisions in the will, you will find that they about parallel each other. Make an analysis of the *estate line* (A), as we have tried to develop it in Newark —it is all for one purpose. We have tried to program the estate of a man so it will work to *one financial goal.* If you have served well, the illustration will look as follows.


One Financial Goal
Estate Line (A)
$100,000 Life Insurance payable to X's Bank as Trustee under Agreement.
(B)
$50,000 Other estate to X's Bank as Trustee under Will
(C)

Programming to One Financial Goal

The duty and responsibility of every financial institution rendering fiduciary service.

DIAGRAM 3.

If I don't do anything else in this most delightful and pleasant trip to Atlanta, I hope I may succeed in getting the bankers of the South to try to develop the life insurance trust business on a sound basis through a careful analysis of each customer's needs, and not on a wholesale plan such as I know is sometimes practiced.

If there are any questions that you may have in your minds, I will be glad to answer them, if I can.

Rule Against Perpetuities

E. GRIFFITH DODSON (Trust Officer, Seaboard Citizens National Bank, Norfolk, Va.): To what extent does the rule against perpetuity affect that power of appointment given to the daughter?

MR. MCDOUALL: Our company, of course, is rather conservative, and we take the attitude that the rule against perpetuity starts to operate as and from the date of the trust agreement. That opinion isn't shared by all. Many lawyers are of the opinion that the rule does not start to operate until the death of the insured, but our company proceeds on the theory, and the agreements which we execute and become trustees of are all on the basis, that the rule does take effect and operate from the date of execution.

Purchase of Life Annuity for Wife

MR. DAVIS (Life Underwriter, Atlanta, Ga.): I want to ask you a question that I have been confronted with many, many times. Let's take the case of a man, we will say, of thirty-five, and a wife of thirty-three, or forty and thirty-eight, who are interested in a trust, but they have no children.

That man is interested most vitally in his wife getting the largest return possible, and, of course, where there are no children there is a problem that you have to meet. How can you meet that, with the exception of a life insurance annuity to become operative, say, about age fifty-five? Would you recommend that that be incorporated in the trust: that if she lives to be, say, fifty-five or sixty the trust could purchase from a sound life insurance company an annuity providing her with an income for life, leaving nothing at her death?

MR. MCDOUALL. We have such a trust in our institution. It provides that the donor's wife (the trust is $60,000 as I recall it) may use income and principal, subject to retaining $20,000 for the purchase of an annuity when wife reaches the age of sixty. The principal, except $20,000, is to be used between the years that will elapse between her attained age at the time the husband dies and age sixty. For instance, we will say that the husband dies at age forty-five. That leaves fifteen years before the wife will arrive at sixty which would give her approximately $3,000 a year from the principal. The last $20,000 of the trust is to be used to purchase an annuity at the most favorable rate that we can obtain, thereby guaranteeing sufficient income or funds as long as the widow may live.

We are great believers, in Newark, in settlement options. No one can convince me that settlement options do not have great merit, because they have, and in many, many cases our company has recommended the exercise of the settlement option, especially where a man desires rigidity rather than flexibility.

After all, it all boils down to the one thought of rigidity versus flexibility. If you want your program rigid, the settlement option will certainly do it. But if you want centralized and discretionary management of all life insurance funds, the flexibility of the life insurance trust is the solution. In the particular case that you mention, if the problem were presented to me and that was the only interest the insured desired to protect, I might, if the facts as to the disposition of the remaining capital were such, suggest that he exercise a settlement option.

TROY BEATTY, JR. (Trust Officer, First National Bank, Memphis): In arranging a trust, in the case of liquidation, in a closed corporation, how do you arrange the payment of premiums between men of different ages?

MR. MCDOUALL: I have usually recommended in life insurance for business purposes, that is, in the matter of a closed corporation, that A should insure B and B insure A. I will grant you that there may be quite some difference in the ages, but that is a matter that can always be worked out. In the first place, I like to have the premiums paid for by someone other than the insured. Also to bring the policies into a business insurance trust, rather than follow the old method of having the corporation insure the two men and make the insurance payable to the corporation.

I would be glad to develop that further with you, but as our time is limited I would ask you, if you will permit me to answer the question in this way, to read Insurance Trust Bulletin Number 3, which has a wealth of information on that subject of business life insurance trusts.

Fees

ALBERT ROBERT: (Asst. Trust Officer, American Trust Co., Nashville, Tenn.): There is one question I should like to ask Mr. McDouall in regard to fees, and that is, does your company make a charge on the acceptance of the insurance trust, and does it charge a fee on the collection of the proceeds of life insurance, and does it charge a fee on the distribution at the close of the trust?

MR. MCDOUALL: Let me answer that in this way: Our compensation agreement provides that on the *termination* of the trust we shall receive one and a half per cent on the first $100,000 of life insurance and one per cent on the excess; and we shall receive five per cent on the first $5,000 of income per annum and three per cent on the excess. We have not been successful, long as we have been in trust work, in inducing prospects to pay us to accept their business. It can't be done in our city. I know it is done in some localities.

MR. ROBERTS: Do you have a revocation fee?

MR. MCDOUALL: We have a revocation fee of $25 and up per annum, depending on the circumstances.

Business Insurance Trusts

H. F. PELHAM (Vice-President, Citizens & Southern National Bank, Atlanta, Ga.): Mr. McDouall, there is one point on which I would like to get an expression as to your experience, and that is the type of insurance to go into the various classes of business trusts. We generally have three types of business trusts, I believe. One is the trust for credit purposes; the second is the trust on the sale and purchase of an interest in a closed corporation or partnership; and the third, as Dr. Stevenson so well brought out last night, insuring the life of a key man in an organization or a merger over the period until the institution is able to stand on its own feet. I should like your experience on that.

MR. MCDOUALL: In the first type that you mention, Mr. Pelham, life insurance for credit purposes, I might be inclined to suggest a term contract. It would all depend, however, on the facts. In the average business insurance case, which is for the purpose of providing cash to buy out a deceased stockholder or partner's interest, I would be inclined to suggest the ordinary life contract, which in the majority of cases is the proper insurance contract to buy.

Distinction Between Insurance and Trust Business

MR. DREW: Mr. McDouall, the discussion is getting a little bit away from the development of trust insurance business, as some of the men had it in

mind. May I ask some of you who have questions pertaining to the starting of and the developing of the trust insurance business to bring those out, rather than get into the settling of the trust agreement already provided?

MR. PELHAM: Mr. Drew, if I may arise again, on that one point, I have made this distinction in my mind: if we are looking to what happens for the beneficiary, it is primarily an insurance situation. If we are looking to what happens to the beneficiary, it is then in my opinion a trust situation. In other words, is it administrative or is it not administrative? In that way, in my discussion with every insurance man, he answered the basic question, "Is it an insurance case or is it primarily a trust case?" simpler than in any other way.

MR. DREW: Mr. McDouall, upon what basis should a bank attempt to develop trust insurance business, or trust business?

MR. MCDOUALL: I believe I answered that question in the paper which I read, but the thing I want to impress upon you more than anything else is that you are either in the trust business, or you are in the insurance business. You can't be in both. If there is an officer or employee in your institution who now has a contract to write life insurance on the side, for goodness sake, see that it is cancelled. That is the first position of confidence that you must create with the life underwriter, and not until that time, and only when you have designated some key man in your institution to study this question of life insurance can you be prepared to cooperate intelligently with the life underwriter.

QUESTION: I should like to ask, in the average case where you have a clause in the trust agreement giving the privilege of using parts of the principal of the trust, whether you think it is better to give discretionary power to the beneficiary of the trust or to the beneficiaries, subject to the approval of the trustees.

MR. MCDOUALL: I always try to influence prospects to handle it in the way I have outlined to you. In my own trust, I give Mrs. McDouall the right to use a small part of the principal (3%) each year. I think that a wife ought to have something to say about it and not have to depend upon the judgment of the trustee. There may be cases where that isn't wise, but I think in the average case the life tenant, who is usually the wife, ought to have the sole right to withdraw a certain amount of the principal.

In closing, may I say that this has been a great opportunity for which I am truly grateful. If you forget everything else I have said, take home this one message (it is a quotation from the Book of Books): *"Where there is no vision the people perish."*

"THE trust business is, in my opinion, the most interesting in the world, and I think it is important that we should keep it on a professional plane. My own institution has always made it a point to take a large number of small trusts, small guardianships and small trusteeships, not because there was any profit in them for us but because we felt that, like the doctor, particularly, we should do a certain amount of charitable work for the benefit of the community at large. And I urge upon all of you that you pursue that policy in your own institutions. I am certain you will find that such a policy will pay.

"If you are going to have a serious operation performed, I think most of you will go to a doctor who has a reputation for doing some charitable work and the reason for that is because you know that that doctor loves his profession and is very conscientious in his work. The same thing is true, I think, with regard to what the public will think of trust companies. If they know that you are doing some charitable work they will realize that you believe in what you say and that you will be conscientious in your efforts to serve them."

WM. A. STARK, *Counsel,*
Fifth-Third Union Trust Company, Cincinnati, Ohio

(*Presiding Officer, Third Session, Second Southern Trust Conference.*)

COOPERATION with the Bar

By ROBERTSON GRISWOLD
Vice-President and Trust Officer, Maryland Trust Company, Baltimore, Md.

The one factor more than any other that has disturbed the equanimity of the relations between trust companies and the Bar has been the question as to what constitutes the practice of law by a trust company. It is conceded at the outset that a trust company, being a corporate entity has no right to practice law.

Whether the preparation of wills and trust agreements constitutes a violation of this rule can hardly be said to be judicially settled. However, it is well to consider that an officer of a trust company in preparing a customer's will, is acting in a dual capacity and may be guilty of a "divided allegiance" between the customer and the trust company.

That the trust business may best be advanced by working in harmony with members of the bar is evident when it is remembered that the lawyers are in the very best position to steer business not only to the trust department but to the banking department as well.

Some portion at least of the tremendous growth of corporate fiduciary service throughout the country may be ascribed to a general adherence to the formula of harmony pronounced a decade ago by the Committee on Cooperation of the Bar of the Trust Company Division. In the formal statement issued by the Committee it is stated that a trust company, in the exercise of its real functions, "deals primarily not in matters of law but in matters of business, investment, clerical and accounting service, which do not conflict with the profession of the lawyer but really supplement and assist his work by relieving him of duties which he has neither the desire nor the office organization to perform."

That there is no magic in establishing a real entente with the Bar, is claimed by Mr. Griswold. "A little patience," he points out, "a little tact—a little judgment—a little appreciation of the other fellow's viewpoint — these ingredients form an excellent compound to build you up against a sudden attack of adverse legislation and to insure to you a healthy growth of your trust business."

THE matter of cooperation with the Bar is one of such fundamental importance in every locality that it is a matter of some astonishment that it is so often a negative rather than a positive policy with many trust officials—that the frank facing of the question is so frequently avoided until the occurrence of some untoward event brings the lawyers and the trust companies into active hostility. An ill-considered advertisement—a thoughtless slight—a refusal to recognize some one else's natural interest—and in the wake, the inevitable flare-up. After the escape of the horse—which usually carries away on its back a goodly amount of public confidence—there is the customary rush to close the stable door.

It must be admitted that the primary blame does not always attach to the trust companies. In many cases, the lawyers have demanded that the trust companies cease practices which are wholly within their rightful province and which are strictly in accord with the fiduciary powers conferred upon them by their charters. Circumstances and conditions and habits of thought vary so greatly in different localities, that one would be indeed rash to attempt to formulate a standardized set of rules intended to govern the *modus vivendi* of trust companies throughout the land. The best for which we can hope is to profit by the mistakes of others, and to lay down certain broad, general principles. This has been the endeavor of the Committee on Cooper-

ation with the Bar of the Trust Company Division of the American Bankers Association.

What Constitutes the Practice of Law

If we were asked what one factor more than any other has contributed to disturb the equanimity of the relations between trust companies and the Bar, we would unhesitatingly pin our reply upon the answer to the question as to what constitutes the practice of law by a trust company. In the first place, we must concede that the right to engage in such practice is beyond our proper sphere. "It is not within the power of a corporation," says the legal encyclopedia Corpus Juris, "to carry on the business of one of the learned professions, among which may be mentioned specifically law, medicine or dentistry, or to hire practitioners to carry on such business for it." (14a C. J. 296). The reason for this rule is thus stated by a New York Court: "No one can practice law unless he has taken an oath of office and has become an officer of the court, subject to its discipline, liable to punishment for contempt in violating his duties as such, and to suspension or removal. * * * As these conditions cannot be performed by a corporation, it follows that the practice of law is not a lawful business for a corporation to engage in. As it cannot practice law directly, it cannot indirectly by employing competent lawyers to practice for it, as that would be an evasion which the law will not tolerate."

In another New York case, a corporation was expressly authorized by its charter to practice law. It claimed that the practice of law was like any other business, but the Court, in vacating its charter, said that a corporation's right to engage in business meant business "in its ordinary sense", and not "the business or calling of members of the great profession".

It is interesting to note the distinction between law and business which the Court makes in the above case. We shall see later what an important bearing this distinction has when we come to consider the adjustment of a proper relationship between the Bar and trust companies.

Conceding, then, that a trust company, being a corporate entity, has no right to practice law, and this regardless of the existence *vel non* of a statutory prohibition, of what acts do lawyers usually complain as constituting a violation of this rule? Many of them are obvious, some are close to the border line. It is acts of this latter type which cause the most confusion and subsequent bitterness, because the trust company may be innocent of any intentional wrong-doing, and may feel that a curtailment of such acts is an infringement upon its own rights rather than a protection of the rights of the lawyer. In this twilight zone is often placed the matter of the preparation of wills and deeds of trust by the company's own officials or regularly employed attorneys.

Whether or not such activities constitute the practice of law can hardly be said to be judicially settled beyond all doubt. A Special Committee of the Conference of American Bar Association Delegates prepared a careful definition of what constitutes the practice of law, but it makes no specific reference to the drawing of wills and deeds of trust, although the language is so broad that it might be construed as covering such acts. A Special Committee of the New York State Bar Association, however, states definitely that the practice of law includes the drawing of wills. And in this conclusion, it is supported by at least two decisions in its own state, although a search of the authorities generally has failed to disclose any other judicial pronouncement upon this particular phase of the subject.

In one of the cases to which reference has just been made, a will was prepared by a lawyer associated with a firm that was regularly employed by a trust company. A statute in the state prohibited the practice of law by corporations. The Court, after stating that in the common understanding of the business world, the drafting of wills was practicing law, said: "The attorney served the client because of his employment by the defendant (i. e., the trust company), and at the request of defendant. Motives which often, if not usually, actuate men, would cause some attorneys in such a situation to regard primarily the interest of the corporation and secondarily only that of the client. To prevent this divided allegiance this law was passed."

Danger of "Divided Allegiance"

Regardless of our opinion upon the soundness of the Court's conclusions in this case, it must be admitted that the words just quoted give us some food for thought, for they bring us face to face with the paramount question of our true duty towards our customers. When we prepare wills and deeds of trust, are we acting to the best advantage of our customers? Should they not be entitled to the benefit of entirely independent legal advice? May we not really be guilty of a "divided allegiance" between our own customers and the companies which employ us? And in the case of possible conflicting interests, in whose favor should they be resolved? If in favor of the company, then we have not played fair with our customer; if in favor of the customer, then perhaps we have prejudiced our company's entirely proper interests.

But, it is often said, do not other corporations engage in the practice of law when their own attorneys appear on behalf of their customers, as in the case of liability companies defending suits brought against persons whom they have insured? Here, however, the distinction is quite obvious, as the insurance company is in reality defending itself, because under its contract it must pay any damages rendered against the insured, hence there can be no accusation of "divided allegiance" against the insurance company's lawyer who is also the attorney of record for the insured. Another example of this distinction is the foreclosing of mortgages, on behalf of individual mortgagees, by surety companies

guaranteeing to such mortgagees the payment of the mortgages. Here, again, the lawyers for the guaranty company are protecting their company against a contractual loss, and the company's interests are not adverse to those of the mortgagees in whose names the foreclosure suits are instituted. The matter of drawing wills by a trust company comes within an entirely different category, for here the paid employee of the trust company is thrust forward to also represent the will-maker. In this dual capacity, might not the employee's advice, unconsciously of course, be sometimes colored?

A Potential Source of Business

Fear of losing business is an excuse often advanced by the trust companies which prepare wills. This is a confession of weakness, predicated upon their failure to gain the complete confidence of not only the lawyers but of their own customers. It would seem more natural to fear a loss of business on account of the drawing of wills, whereby an influential portion of the community is antagonized. It is an interesting phenomenon to see some trust companies, spending large sums of money and making earnest efforts to secure the good will of the general public, deliberately adopt a policy which makes enemies of an important component part thereof. They seem to overlook the fact that, of all of the people in the community, the lawyers are in the very best position to steer business to their trust departments, just as the insurance men are the best natural feeders for insurance trusts. Can you imagine a trust company, seeking insurance trusts, solemnly taking a position that will drive all of the insurance men away from it?

Nor must we forget that the lawyers are a potential source of supply of other valuable business besides that pertaining to the trust department. Marquis Eaton, of the Chicago Bar, points this out in a most interesting manner in an article in the July, 1925, issue of "Trust Companies Magazine". In the course of the article, he says: "I have been told, and I believe it to be true, that lawyers introduce more acceptable customers to the banking department of the trust company than does any other professional or business group". To the same purport is a statement by Julius Henry Cohen of the New York Bar in the January, 1927, issue of "Trust Companies": "In a busy practitioner's work, hardly a week passes that he is not obliged to consider in what respect a trust company can function in carrying out a given plan which comes to him for advice and approval".

How, then, can the trust company best obtain and hold the good will of the lawyer? If the sore spot be really what it seems—i. e., the actual or alleged practice of law by trust companies—we shall have to avoid even the appearance of evil if we desire complete harmony with the lawyers. If this be our end, we should give the lawyers to understand, by deed as well as by word, that we consider theirs to be the legal end, ours to be the business end, of all fiduciary service.

The Distinction Between Business and Law

Ten years ago, the Hon. Elihu Root, then President of the American Bar Association, gave it as his opinion that the time had come to draw a line between business activities and the practice of the law. The occasion of this pronouncement was a meeting of one of the Committees of the American Bar Association. Attending the meeting by invitation was Mr. Merrel P. Callaway, Vice-President of the Guaranty Trust Company of New York. Speaking before the Committee, Mr. Callaway said: "To my mind the ideal way of handling an estate is for its business affairs to be handled by the trust company and its legal affairs by lawyers. * * * The complexity of modern business, with all kinds of changes in stocks and bonds and investments, creates a great deal of detail that can be handled better by the trust companies than by an individual. * * * The lawyers want the trust company to handle the business end of it, and the trust company does not desire to handle the legal end of it. * * * In the handling of an estate, the trust company endeavors to obtain the services of the testator's own lawyer, because he is probably familiar with the estate."

As a result of the meeting, a resolution was passed by the Committee which commended the efforts of the Trust Company Division to cooperate with the Bar, and which contained the following statement: "Trust Companies, while performing proper and legitimate functions of a business and fiduciary character, are not constituted or organized for the purpose of furnishing legal advice to clients —drawing wills or furnishing legal services." The year following, that is, in 1920, the Committee on Cooperation with the Bar of the Trust Company Division issued a formal statement advising that "every effort should be made to have the attorney for the client draw his or her will," and that it should be demonstrated to the Bar that a trust company, in the exercise of its real functions, "deals primarily not in matters of law but in matters of business, investment, clerical and accounting service, which do not conflict with the profession of the lawyer but really supplement and assist his work by relieving him of duties which he has neither the desire nor the office organization to perform."

The principles as thus enunciated a decade ago would seem just as deserving of attention now as then. There has been no change of circumstances or conditions that would justify an abandonment of the underlying idea, but on the contrary, it would seem only fair to ascribe some portion at least of the tremendous growth of corporate fiduciary service throughout the country to a general adherence to this formula of harmony through the mutual recognition of different spheres of influence.

But, one may say, this formula may be all right for the larger cities, but can it be applied to the situation in the smaller communities? This seems to

be a distinction without a difference, and there does not appear to be any valid or logical reason why it should be made. The country lawyer is probably closer to his clients than the city lawyer and the asset value of his good will just as worthy of consideration. If he be antagonized, he may turn over his business to a trust company in a nearby city, and that this is not by any means an empty threat will be attested by many city trust officials. Again, the problem of actual cooperation is as a rule much easier of solution in a smaller community than in a large one. In a city, the customer's lawyer and the trust official are oftentimes total strangers until the business at hand brings them together, whereas in a smaller community, the probable element of previous friendship is of great value to everyone concerned. A family divided amongst itself is much sadder to behold than the erstwhile quarrels of neighbors.

Attempts at Adverse Legislation

Please do not construe this plea for cooperation as an admission that the friction which sometimes arises is invariably due to the failure of the trust companies to observe the rules of the game. Groups of lawyers have at times deliberately endeavored to have legislation passed in certain of the states purely for the purpose of hampering the legitimate business functions of the trust companies. With legislation forbidding the corporate practice of law, we should have no quarrel—it is simply declaratory of what the courts have decided. But when the legislation begins to assume the aspect of a gratuitous interference with the rights which the states have given to us by charter, we should present an undivided front against such aggression. A sample of such legislation has appeared in the form of bills designed to prevent trust companies from advertising that they can act in fiduciary capacities—the very purpose for which the state permitted them to organize. Here the lawyer on his part has confused the distinction between business and the law. He contends that, because the ethics of the bar forbid him to advertise, the trust companies should not be permitted to do so, thereby placing the trust companies upon the purely professional plane from which he is simultaneously attempting to drag them. In effect, he is saying to the trust companies: "While we will not permit you to practice law, you must none the less submit to our rules governing such practice". Many lawyers engage in the real estate business and arrange for loans on mortgages, but do we hear of them asking for legislation to prohibit advertising by real estate and mortgage companies? If the trust companies confine their advertising strictly to the business end of fiduciary service, the lawyers have no cause for complaint.

In most instances, the lawyers proposing such obviously unfair adverse legislation do not represent the leaders of the bar. Quite to the contrary, there have been occasions where the leaders of the bar have themselves opposed such legislation and have actually defeated it without the necessity of any interposition by the trust companies. When drastic legislation was proposed in Maryland several years ago, Hon. William C. Coleman, now a Federal District Judge, speaking before the State Bar Association, said: "We are part and parcel of the trust companies, we are essential to them and they are absolutely essential to the community, and I do not think that the way to approach this question is to approach it in the spirit of attack on the trust companies." A committee of the Maryland State Bar Association appointed to consider further the matter of such legislation subsequently reported as follows: "The question is not one of legislation, but rather of more general enlightenment and cooperation."

A Spirit of Conciliation

Here indeed is exhibited a spirit of conciliation that is worthy of emulation on our part. It is a recognition of our rights and is a challenge to us to recognize the rights of the bar. It may be difficult for us at times to properly appraise these rights from our modern business viewpoint, but we must remember the historical background of fiduciary services and not overlook the fact that for many centuries, the individual lawyer was the sole agency operating in this field.

The average lawyer is, after all, just as human as the average trust official, and just as appreciative of courtesy. You cannot secure his friendship by attempting to put him in what you might possibly consider his proper place in the fiduciary realm. If, on the other hand, you exert the same efforts with him as you do with others in your community, you will find that you are not wasting your time. As in all other attempts to build up good will, the personal contact is the most potent element of success. Many trust companies are applying this thought in various ways. Such of their officials as are members of the bar make it a point to attend the lawyers' meetings. One company gives periodical dinners to the leading attorneys of the bar, another company entertains the young men who have just been admitted to the practice of law, still a third company has an official who pays a personal call upon the newly admitted barristers in order to acquaint them with his company's facilities. Numerous trust companies distribute to the bar advertising material of interest to the lawyers, such as legal directories, court calendars, intestacy charts, etc. And those companies which are sincere in their efforts to work along amicably with the lawyers are particularly careful to see that their general advertising emphasizes their recognition of the fact that they render unto the lawyer all things that are legal in nature.

There is no magic in establishing a real entente with the bar. When your customer is ready to have his will drawn, inform his lawyer and ask him if he would be interested in calling and examining your business methods for handling estates. In most cases, you will find him not only appreciative of your courtesy but desirous of your suggestions

as to administrative provisions to be placed in the will or deed of trust.

If, however, differences should arise, sit around a table and talk things over. It is surprising how often the misunderstanding on one side or the other will evaporate when it reaches the surface and is exposed to the air. A little patience, a little tact—a little judgment—a little appreciation of the other fellow's viewpoint—these ingredients form an excellent compound to build you up against a sudden attack of adverse legislation and to insure to you a healthy growth of your trust business. Business upon your books which represents a sacrifice of the friendship of the Bar may not always prove to be an asset, whereas good will is never carried upon the liability side of your balance sheet.

Discussion

Led by ROBERT B. TROUTMAN, *Attorney, Atlanta, Georgia*

I DIDN'T exactly understand whether Mr. Griswold was the Chairman of the American Bankers Association Committee or the American Bar Association's Committee on this question. He seems to have presented the subject ably, whichever capacity he may occupy. He has stated admirably the difficulties that arise from the relationship between the bar and the trust company, and the attitude of right-thinking lawyers and of right-thinking trust officers on this question.

He touched briefly on the reason for the skeptical attitude, I might say, of lawyers toward the administration of estates by trust companies. The lawyers have a pecuniary interest in this problem of administering estates because for centuries they had the large part of that administration to do, for compensation.

The Proper Sphere of Each

I think, under modern conditions, not only must the trust companies recognize what is properly the sphere of the trust officers, but the lawyers must also recognize what is properly the sphere of the lawyers, and just as the trust companies must recognize that they should not practice law, the lawyers ought to realize that they are not businessmen.

Let me call attention to something that it seems both lawyers and trust officers overlook: that, certainly, nominally, the lawyer is in a fiduciary capacity toward a man who is making his will or toward an executor to whom he is giving advice, and that his primary purpose is not to obtain a fee for that advice but to render a real, genuine service to the client. We are loath, both your profession and mine, to regard the profit that is in it more than the interest of the client or the customer.

If we really think, not in terms of building a profitable department of our trust company, or as lawyers of making as large a fee as we can from this case that has come to us, but of the service that we can render to this customer or this client, then clearly it seems that the sphere of operation of the trust company is well-founded and the sphere of operation of the lawyer is well-defined and admirably put by Mr. Griswold.

Difficulty of Disinterested Representation

There is one question that I want to ask, just to open up the discussion, that is a very delicate question, to my mind, and one on which there can be two sides taken very seriously. I have serious doubt whether a lawyer who represents a trust company, or who is paid a particular fee for drawing a will making that trust company executor of that will, is in a position to disinterestedly represent the man whose will he is drawing. So it is a delicate question that you trust officers put before your lawyer when you ask him to take a man whom he has never seen before and draw his will and make you the executor under that will.

The question of compensation to you as executor immediately arises and in that matter certainly the trust company is not a disinterested party. It has an interest in fixing that compensation as great as the traffic will bear, as they say, and when the lawyer representing your institution undertakes to draw that man's will and comes to that point he is no longer a disinterested attorney, and I have grave doubt if, within the sphere of the ethics of his profession, he has a right to represent that man under those conditions.

The preparation of a man's will, of course, is unquestionably a lawyer's function, and there comes about serious friction (I am trying to speak frankly to you because otherwise it wouldn't be worth while for me to present to you the attitude of the lawyer), in fact, I might say the bone of contention between the great majority of the bar and your trust officers is on this very human question of the tendency of the trust company to refer every man that comes in there to draw a will to the lawyer of the trust company to do, by reason of the relationship that has existed between the trust officer and the trust company and that member of the bar.

Mr. Griswold has admirably pointed out that that element of conflict and that point of friction can

easily be removed, if the customer has had a lawyer in the past, by having that lawyer draw the will, or by having the customer go to some entirely disinterested lawyer who is in a position to represent him disinterestedly, because it is not the trust company's will that is being drawn, but it is the customer's will that is being drawn, and he is the man that is primarily interested.

Invariably Refer Customer to His Own Attorney

MR. GRISWOLD: May I follow out Mr. Troutman's thought about the employment of your regular counsel to draw wills? We have definitely abandoned that practice—I don't mean my company only but all the companies have—because of the reason which Mr. Troutman just set forth. We invariably refer the customer to his own attorney. There are cases, however, where the customer has no attorney. In such cases, we feel free to suggest the name of an attorney that we know is qualified to meet the requirements of that customer, in the same way that we would feel free to suggest that attorney in case he wanted to collect a debt, or anything of that sort. But we will not refer him to our counsel over the head of his own lawyer.

That, gentlemen, is not only an ethical question but it is a practical business matter because every time that you refer customers to different members of the bar—and we try to spread them around as much as we possibly can—we have a source of new business. So, from a purely selfish standpoint, by following that procedure, we establish new sources of business for our trust department.

MR. TROUTMAN: Of course, you are going to have some opposition from that element of the bar that doesn't genuinely represent what I like to call the best element of the bar. We have such an element in the bar just the same as there are a great many people in the trust business who do not represent the best element of the trust company. I believe that as long as a trust company maintains its operations within its own sphere, among the better element of the bar you are going to find cooperation, for the reason that you are in a much better position to render that class of service that you can render in your sphere than any lawyer that I know of.

A Code of Ethics

I offer this as a suggestion to you if you have any difficulties about it: that a committee from the banks in the community, or the trust companies, meet with a committee from the bar association in the local community and try to define and create a statement of principles under which each shall be confined to his own sphere, and under which the lawyers will pledge themselves not to discourage a man from creating a corporate executor of his will. It has been done in many places, in many states.

MR. GRISWOLD: And very successfully.

MR. TROUTMAN: You are going to find in your bar association the best element of the bar and you will find there men who want to serve their clients in the same manner that you want to serve your customers. And with intelligent men thinking in that way, you can reach a very well-defined set of principles from which no friction will arise.

Drawing of Life Insurance Trust Agreements

CHESTER D. WARD (Treasurer, Montgomery Trust Co., Spartanburg, S. C.): I want to ask both Mr. Troutman and Mr. Griswold this question: In regard to wills, we never draw a will and never have and never will. We always send it to a lawyer; that is, we always send the client to his own lawyer. In regard to life insurance trusts, we draw all our life insurance trusts, ourselves. I want to know if that is practicing law.

MR. GRISWOLD: Personally, there is no decision, as far as I know, on that. There is not only no decision but I do not think any committee of any bar association has said the drawing of life insurance wills constitutes the practice of law. As a matter of policy, we do not draw them, although we recognize that we probably have the right to draw up an instrument of that nature. We do not draw them because we feel that if any question should arise in connection with the trust, not the administrative provision but the trust provision, for instance, an offense against the rule of perpetuity, or if the trust should fail for any other reason, and we went into court, or we were taken into court, it would put us in a very embarrassing position.

MR. TROUTMAN: My opinion is, if you ask me as a lawyer, that it is practicing law. I really think it is. Whether it is good policy, I don't know. I think they would hold that it is practicing law—creating a trust with remainder interests, and things of that kind. It is just a step in making a will, in my judgment. Of course, two parties can sit down and make a contract. A man can sit down and make his own will. He doesn't have to have a lawyer to do it, but I believe it would come under the same category.

That is my opinion, as a lawyer. I don't see any harm in it. For my own self, I can say that the trust agreement for my own insurance was drawn by the insurance company and I approved of them drawing it. I think, however, it would come under the same category as practicing law in a test case.

MR. GRISWOLD: It has never been so defined, as far as I can learn, by the American Bar Association. It is a close question.

Fees for Drawing Trust Agreements

ROBERT G. STEPHENS (Vice-president and Trust Officer, Trust Company of Georgia, Atlanta): I should like to ask, in cases where you have an insurance trust, or for that matter, a voluntary deed of trust prepared by an outside lawyer, whether or not you ask the customer to pay a fee. I know in the country we make no charge whatever for the

preparation of those instruments. Nor do we charge, under the rules of the Atlanta Clearing-house Association, any fee or compensation on the principal of the insurance when it is received, but merely on the income during the time it is administered, and then a distribution charge. I should like to know what the practice is regarding the payment of fees in drawing such instruments. The insurance companies will prepare those instruments without any cost, if you leave it to the insurance company, and it is my thought that if we undertook to have those instruments prepared by outside members of the bar, they would expect to be compensated therefor, and in doing so either the banks would have to pay that charge or we would have to assess it against the customer, and immediately we do that, we would be placed in an unfortunate position as compared with the life insurance companies, who will prepare all those instruments without compensation.

MR. GRISWOLD: The distinction there is very obvious. A life insurance contract is simply a contract between the insured and the life insurance company. And when you are offered that policy, you take it at your own risk. The life insurance company doesn't say to you when you buy a life insurance policy, "Here is your policy. Now, our company attorney who prepared this policy also represents you." It is an entirely different matter.

MR. TROUTMAN: The life insurance company has an interest in it. You have no interest.

MR. GRISWOLD: Yes, that is just a bilateral agreement between the two of you, and when you get your policy you are at perfect liberty to go to your own attorney and say, "Does this policy protect me?"

Standard Forms

MR. STEPHENS: Would it meet with the approval of the bar and the trust companies if we undertook to prepare a form? For instance, a great many banks have printed forms—so do the New York banks—standard forms of agreement for life insurance trusts and for living trusts, and for other purposes. Would it not be a wise thing to cooperate with a committee from the bar association, such as Mr. Troutman has suggested, in the preparation of standard forms, leaving merely the trust provisions to be written in by the lawyer? In that way, we would be a decided help to the lawyer, leaving merely the mechanical provisions of administering the trust. The average lawyer is not an expert in drafting wills, nor trust agreements, and he is only too glad to receive suggestions from the banks and the trust companies as to the clauses for the mechanical administration of trust funds, which would be of assistance to both the trust companies and the lawyers who represent the trusts after they come in.

MR. GRISWOLD: That is very highly desirable.

W. W. TRICE (Vice-Chairman and Trust Officer, Citizens Bank and Trust Co., Tampa, Fla.): In our own institution, we long ago adopted the policy of never drawing up any legal document, be it a trust agreement, a will, or what not. None of our officers are allowed to do that. We have our own firm of attorneys in our building easily accessible, and we do not wish to take the risk in drawing our own papers of having something come up or having some question raised by the beneficiary years hence that might possibly cause our institution serious embarrassment, if not actual loss. We do have will schedules, and I suppose most of the trust officers present carry those, for a suggested program or suggested will form for our customers to make pencil memoranda on. Then they are returned to us.

However, we do do this: invariably when a customer comes to us indicating his or her desire and intention of having a will drawn, our first question is, "Who is your attorney?" and we suggest that that customer go to that attorney to have the will drawn. If the customer has no attorney then, of course, we suggest one of our various customers who is practicing law. But we deem it a dangerous thing to endeavor to draw legal documents in our own institution. We do not want to take the chance of proving, to our own injury, the old adage that, "The businessman who is his own lawyer has a fool for a client."

MR. GRISWOLD: Following your thought, there is one actual case that I know of where a trust company has not yet lived down a will that was attacked successfully, prepared inside of its own office, about eight years ago. I know that to be a fact: that that company has not yet lived that down.

A Three Cornered Conference Desirable

MR. STEPHENS: Mr. Chairman, I would like to add a little further to my remarks, by saying that the line of demarcation between the practice of law and counsel and advice in connection with planning a testamentary scheme of distribution is rather finely drawn. The administration of an estate per se, except as to the legal complications which might arise, is a business matter. Consequently, in discussing with any customer the question of having his will prepared or the establishment of a trust fund, naturally, it is within the province of the trust officer to discuss with him concrete and practical plans for handling his business after his death, or for the administration of his estate.

Those conferences inevitably lead up to the final stage which is the preparation of the will or trust instrument itself. The average lawyer of standing at the bar is a very busy man. He has neither time nor inclination to sit down with a client for a number of hours and discuss with him the practical matters affecting the business side of administering his estate or trust, and I should think if we would cooperate with the bar in the manner that I have suggested, by having our consultations with the client, going into the business affairs with the client and ascertaining what the client wants, and then take the data to his lawyer and say, "Here is what the

client wants," the lawyer will then put the customer's wishes into legal phraseology and will draw up the necessary will or instrument to put them into effect.

MR. GRISWOLD: I think that is a little bit dangerous. I think you are very apt to offend the lawyer by doing that, Mr. Stephens. What we always endeavor to do is to have a three-cornered conference immediately. As soon as the customer comes in, I ask him who his lawyer is, and telephone his lawyer and ask him when it will be convenient to arrange a conference among the three of us, and I have never seen a lawyer yet who resented that method of going about it. The three of you sit around there. It saves two or three extra conferences. You have your conference with your man and then you have a conference with his lawyer, and then you have the three-cornered conference finally. If you will do that right at the beginning, so that the attorney can tell you any legal objections that may occur to him as to the administrative plan that you have proposed, you will have the whole thing done right away, everybody will be much happier, and you won't take the risk of offending the lawyer.

If Lawyer Asks to be Continued

MR. TROUTMAN: What would you say to a lawyer if he asks you if, when this client dies and this will comes up to be probated, you are going to let him represent that estate and represent your company as executor?

MR. GRISWOLD: We make that positive statement in all of our literature.

MR. TROUTMAN: Personally, I doubt the propriety of the question. I think it is a very delicate thing for a lawyer to undertake to pledge a client to employ him after his death.

MR. GRISWOLD: We have never had that question directly presented to us. Of course, we reserve the liberty, if a man is absolutely incompetent, of rejecting him. I think you have to do that. The only analogous case we have had is where the beneficiaries objected to a lawyer. They objected very strenuously and I simply had to go around and talk it over with the lawyer. I told him I was very sorry, that I would be delighted to have him, but that the beneficiaries objected to him. He was very nice about it.

Resolution

Providing for Committee on Model Investment Statute

During the third session of the Conference, the following resolution was passed:

"*Whereas,* the growth of trust business in the South makes imperative a revision of present investment and tax laws which were not designed to meet modern conditions, and

"*Whereas,* it is essential if the Southern States are to keep pace with the other forward-looking and progressive States, and wealth is to be encouraged to stay at home, that the archaic and confiscatory ad valorem tax on investments be changed and a reasonable and equitable system of taxation and a model investment statute be devised, in keeping with other states, and

"*Whereas,* it is the sense of this body that immediate steps be taken to bring about these reforms in the Southern States; now be it

"*RESOLVED,* That a committee be appointed by the Chair to make recommendations to the next meeting of this body to carry out the purpose of this resolution."

The following committee was appointed: C. W. Bailey, President, Southern Trust Co., Clarksville, Tenn., *Chairman.* John H. Boushall, Trust Officer, First National Bank, Tampa, Fla., W. C. Bowman, President, First National Bank, Montgomery, Ala., R. F. Maddox, Chairman of the Board, Trust Company of Georgia, Atlanta, Ga., F. P. Spruill, President, Rocky Mount Savings & Trust Co., Rocky Mount, N. C.

How to Handle *the Registration and Transfer* of Securities

By DAVID P. CONDON
Registrar, The Farmers' Loan and Trust Company, New York City

After urging the bank or trust company to assure itself as to the responsibility of the corporation from whom it is about to accept appointment as transfer agent or registrar, Mr. Condon points out the distinction between the duties of a transfer agent and of a registrar.

The transfer agent is an agent of the corporation but the registrar represents the public. The registrar's duty is to prevent the over issue of stock and under no circumstances can a corporation or any of its officers act as the registrar of its own stock.

The really important feature of the handling of transfers is to make sure that when a stock certificate is presented or transferred, it has a properly executed assignment by its owner. Thus banks and trust companies should realize the importance of their guarantee of the validity of an assignment and the financial responsibility incurred in placing their names on stock certificates.

Mr. Condon cites actual cases in which heavy losses have been incurred through the raising of numbers on stock certificates and through acceptance of a notarial acknowledgment of a signature assigning the stock.

YOU may read, as you probably do, in the papers from time to time of the volume of sales on the New York Stock Exchange. Within the past two weeks, over 8,000,000 shares were dealt in. That activity does not necessarily confine itself to the city of New York. It is spreading like wildfire throughout the whole of these United States and into the provinces of Canada. The result is that many of you engaged in banking and trust company work, to my mind, should familiarize yourselves with at least the fundamentals of the handling of this very important work. I believe that others than the trust officer should be interested and I think before I have finished I shall have very conclusively proven to you that that is the fact.

The cashier passing upon collateral loans should be interested in looking for raised and altered stock certificates that he may take in as collateral. The trust officer handling transfers of corporations of decedents held under trust, voluntary trusts and ledgers, may well be interested in knowing the general principles of transferring stock, because he may save time and money to his client by being familiar with them, and this is particularly important to those who are removed by marriage from the main seat of operations—New York City.

I shall spend the time allotted to me more in discussing the mechanical handling of transfers and registration, for the benefit of those who may be interested in the work.

Before accepting an appointment as transfer agent or registrar, a bank or trust company should assure itself as to the responsibility of the corporation for whom it is about to act. Its investigation should be along the lines of a credit investigation, if you will, because many times there is reflected back upon the bank or trust company the unlawful or unbusinesslike acts of officers of corporations for whose stock they may be acting as the transfer agent or registrar, and I urge upon you, therefore, the necessity of being very, very cautious as to the type of work that you take in. Don't take it just because it looks as though there is going to be a little money in it. Look at it in a broader light and see whether it is going to ultimately involve your good name.

Distinction Between Transfer Agent and Registrar

There is a distinction and difference between the duties of a transfer agent and registrar that it might be well to call attention to now.

The transferring of stock and the records that are to be maintained are usually provided for under the statute of the state of incorporation. As a rule, the law provides that a record shall be kept in alphabetical order of the names of each stockholder, with their addresses, the number of the certificate issued to the stockholder, the number of shares in which the certificate has been issued, and the date of the issuance; and if it is paid stock, the amount that has been paid thereon should be entered on the ledger records.

That is the legal requirement as to the transferring or the records that are to be maintained for transferring stock. I know of no law that provides for a registrar of stock.

The desirability of registration was brought about primarily back about forty years or so ago through the wrongful acts on the part of the officers of some corporations, whose stock was not at that time registered, who were acting as the transfer agents of their own stock, and who as a result permitted over-issues of the stock that went into the hands of the public.

Cases of Fraudulent Issues

There is one very leading case on this subject. It is the New York, New Haven & Hartford Railroad Company against Schuyler. Schuyler was a vice-president of the company and had charge of the stock transfer records. He issued quite a large number of shares of stock to himself, signed the certificates as an officer of the company, disposed of them in the open market, and the New Haven Road had to pay many hundreds of thousands of dollars in order to retire that stock that had been fraudulently issued.

It is said, too, that in the days when Jay Gould was heavily interested in Erie he had a printing-press in the basement of 195 Broadway, where he was turning out stock certificates and the printing-press was printing them.

So that the New York Stock Exchange adopted a rule that all stock must be registered by a registrar acceptable to them. Under no circumstances can a corporation or any of its officers act as the registrar of its own stock. The result is that there are about 22 banks and trust companies in the city of New York who act as registrars of stock, and are acceptable to the New York Stock Exchange functioning in that capacity.

While out on the West Coast last fall my attention was drawn to the fact that after the Julian oil debacle out there, of which you undoubtedly read in the papers, where a large number of shares had been fraudulently issued, the Commissioner of Corporations of the state of California had ruled that no further stock could be traded in in the state of California unless there was a registrar acting who was acceptable to him. That is not written into the corporate laws of the state of California. It is a ruling of the Commissioner of Corporations. I know of no law on the subject.

There is a decision, however, in the New York Court of Appeals, in the case of Jarvis against the Manhattan Beach Company, 148 New York, 652. It refers to a certificate of stock and says:

> "The paper came to them, the brokers, accredited by the genuine signatures of the proper officers of the defendant and countersigned by the registrar, whose duty it was to guard against unauthorized or fraudulent issues of the stock. These signatures carried with them to strangers, at least, the very highest assurance of the genuine character of the security."

Registrar Represents the Public

My position is this: that the "transfer agent" is what the name implies: an agent of the corporation. But the "registrar," although he be acting under a resolution of appointment from the corporation, does not represent the corporation; he represents the public and his duty is, and the reason for his appointment is to prevent fraudulent acts on the part of the corporation, its officers, or its transfer agent. Therefore, the duty of the registrar is primarily and fundamentally to prevent over-issues of stock and that duty he owes to the public whom he represents despite the fact that his fee is paid by the corporation.

Some people in my audience from time to time question this statement, and I have attempted to draw a parallel. The parallel is a bank or trust company acting as trustee under a corporate mortgage. They act in that capacity under a resolution of appointment. Their fees as trustee are paid by the corporation, but I don't believe anybody within the widest stretch of their imagination would pretend to say that the trustee did not represent the bondholders.

Importance of the Guarantee

What is the really important feature of the handling of transfers? To know that when a stock certificate is presented to you or transferred it has a properly executed assignment by its owner. How are you going to satisfy yourself that it is a propperly executed assignment, in other words, that it is the assignment of the person whose name appears upon the face of the certificate, and to whom the certificate was originally issued?

Custom has brought about the adoption of the acceptance of guarantees of banks and trust companies, and in New York City, of New York Stock Exchange houses. Therefore, the guarantee, you can realize, is very important, because the corporation or its transfer agent is taking away the property of the individual because of that guarantee.

Sometimes I am a little bit afraid that banks and trust companies do not realize the importance of their guarantee or of what it means and in what way it is being accepted by the corporation or the transfer agent. Our position is that that guarantee assures the validity of the assignment, that it is the property of the person who has assigned it, and that you have guaranteed the transaction from the assignment through to the number of shares.

If you don't mean that in your guarantees, don't send them along. Some banks and trust companies are doing it as a matter of accommodation. I wish to warn you that it is most dangerous and some losses have occurred as a result of the guarantee being put on stock certificates without proper knowledge of the financial responsibility incurred under the transfer law.

Danger of Allowing Erasures or Alterations

In the issuing of stock certificates by a transfer agent, do not under any circumstances issue to the public a certificate that shows any signs of erasure or alteration. If an error has been made in the spelling of the name, even if it is only one letter, or in the filling in of the amount, void that certificate and issue a new one correctly, because you must realize that unless perfect and clean certificates are in circulation, or, let me put it this way, if unclean certificates are put in circulation, dishonest people can very readily change certificates to meet their own needs.

Let me point to a little incident that occurred. In fact, the sufferers were two representatives of a bank down in this part of the country, Florida. I call your attention to this: You may have noticed on the reverse side of certificates for less than 100 shares of stock traded in on the New York Stock Exchange, these words: "DO NOT PASTE THE REVENUE TAX STAMPS ON THIS END OF THE CERTIFICATE." The need for that grew out of the incident which I will now relate.

Some gentlemen bought the stock of thirteen different companies. The prices they were then selling at ranged all the way from $110 to $180 a share. They bought 2 shares of stock of each of those companies and they had 2 1-share certificates issued to them. They then went down to Florida and entered into negotiations with a local banker to buy some real estate. They made some cash payments, but when the next payment came due on the option they pleaded that they were short of cash and asked whether a stock exchange collateral would be acceptable. The banker said, "Yes, it would be acceptable, provided it is registered in my name individually." Well, he had some certificates for 91 shares, and 81 shares, and 71 shares. They were in his name, and he made the loan, at 8 per cent. He sent them up to New York to his bank. At that time, money was loaning at around 4, and he rediscounted the loan at 4 per cent. He thought he had made a wonderful trade, that he had that 4 per cent difference, which was all gravy. It kind of soured before long, because the cashier passing upon collateral loans to this bank in going over the collateral some three or four weeks after it had been deposited with him noticed what he thought were evidences of erasure.

Among those he called up was myself. There was involved in the transaction certificates for Pullman Company stock that was then selling at around 160. He had a certificate for 91 shares. Our records showed a certificate issued for one share. He then called up some of the other transfer agents. He had American Can. He had quite a nice lot of very healthy stock certificates. But every one of them had been raised from one share to 71, 81, and 91 shares.

Safeguarding a One-Share Certificate

Why the two one-share certificates, and why this legend that is printed on the back of the stock certificate? This is the reason: If you will visualize for a moment, there is a scroll on the righthand side of stock certificates for less than 100 shares and it contains two columns, one with the numbers 0 to 9, under ten's, and the other under units, and on the one-share certificate there would have been punched out at the time of issuance the "0" in the ten's column and the "1" in the units column, which would indicate, and is a safeguard, a one-share certificate.

These gentlemen realized that and they took their second one-share certificate and cut out of it the number that they needed to fill in as against their 91, because they had to cut that "9" out, and they carefully put that in the hole that had been left in the original certificate and put a 2-cent stock transfer tax stamp with its mucilage on the back of the certificate to hold that cut-out piece in place.

The question then was what to do with that certificate, because they had three cut-outs in the second one. They took a match and burned the edge of the scroll, and sent it back to the transfer agent and asked him to issue a new certificate for one share because of the damaged or mutilated certificate.

The Florida banker had a very uncomfortable time. I don't know what his loss was—it was well over $100,000, I know. He may be in this audience. I don't know. He will know better than I.

I merely point that out as an illustration of how careful you should be in issuing your stock certificates not to show any signs of erasures.

I could go on telling you of losses where the same thing occurred. Florida doesn't carry off the palm on that. They did the same thing up in St. Louis. They have done it through Ohio.

I know of an instance in St. Louis where a stranger walked into one of the larger banks, and negotiated a loan. They had reached the point of having the check drawn when a man in the "golden cage," looking at the certificate for the third or fourth time became a little suspicious of it and the prospective customer became suspicious and disappeared.

I am not drawing on my imagination for this,

gentlemen. I am giving you actual facts. Of course, they don't receive too much publicity because they might point the way to others to attempt the same thing.

A few minutes ago I discussed this question of guarantees. I suppose there are none of us that are too old to learn. Up to within two or three months ago I advocated in lieu of a guarantee a notarial acknowledgment to the execution of an assignment of a stock certificate, but because of an unfortunate experience right in my own office I have been forced to revise my views. Perhaps the details of that may interest you.

We issued a certificate for 50 shares of stock in the name of an individual. Possibly to make it clearer, I might use the actual names. The name of this individual was Irving Graff. We delivered it to a stock exchange house who had put the stock in transfer, and Irving Graff was their customer.

Irving Graff lived in Brooklyn. The customer had paid for his stock and the broker intended to forward his certificate to him by registered mail.

A clerk in the office, upon whom devolved the duty of forwarding this certificate, instead of going to their records, went to the Brooklyn telephone directory and found in it the address of an "I. Graff," not "Irving," but just "I. Graff." She assumed that that was the address of their customer and mailed the registered letter to Irving Graff at the address of I. Graff. It subsequently developed that I. Graff and Irving Graff were two separate and distinct people living in different parts of Brooklyn. However, the certificate got to an I. Graff, whose name was "Isadore."

Isadore had a cleaning establishment. I don't believe he had ever seen a stock certificate before in his life. However, he took it, because the gods had thrown something in his lap, I suppose, and went to see a lawyer whom he had known in New York, Murray Lubin. He asked him what it was.

From that point on the statements of Lubin and Isadore Graff differ, because they are both under indictment. Graff said that Lubin told him when he asked him what this stock certificate was, "Oh, that is one of those Wall Street papers you read about."

"Well, is it worth any money?"

"It might be," he was told.

The stock had a value of about $2400 listed on the New York Stock Exchange.

So he said, "Will you buy it?"

Lubin said, "Sure."

Lubin had him execute an assignment in the name of Irving Graff, and that assignment was acknowledged before a notary in Lubin's office, who was also a lawyer named Katz.

Lubin brought that stock certificate down to the office. The man who handled the transaction said, "Well, now, why don't you get a bank or trust company or brokerage guarantee on this?"

"Oh," he said, "he is one of those old men that don't believe in banks and trust companies, that keeps his money in a tin can in the house."

On the strength of that, we accepted a notarial acknowledgment.

About a week or ten days later, Irving Graff, the bona fide owner of the certificate, made inquiry about it, and it had been transferred to Murray Lubin, and Murray Lubin had sold it in the market. He had gotten about $2400. He gave Isidore Graff a check for $1000 dated 10 days ahead, a note for one year for another $1000, without interest. He was a philanthropist. And he kept the $400 for himself.

We had Graff indicted for larceny and then we had Lubin indicted in New York County for receiving stolen goods. Neither of them have been sentenced as yet, but they are having a rather uncomfortable time.

Discussion

J. C. SHELOR (Fourth National Bank, Atlanta, Ga.): Mr. Condon, I know that almost every day, in making transfers of stock, you receive a large number of certified copies of wills and trust agreements which act as the authority for the transfers. I want to know your policy with regard to retaining or handling those documents after they have served your purpose.

Certified Copies of Wills and Agreements

MR. CONDON: Unfortunately, there is no uniform practice as to that in the city of New York amongst transfer agents. The practice of The Farmers' Loan and Trust Company is that we ask for a certified copy of the will, certified to by a court having jurisdiction, and not certified to by a bank or trust company who may be acting either in a fiduciary capacity under the will or for some client.

As to the will, we do not file it. We return it after it has served our purpose as to the transfer then before us.

As to voluntary indentures or trust agreements, we require the production of the original trust indenture at the time of the transfer out of the name of the trustee. We do make an exception, however, in the case where the bank or trust company is the trustee, in that we accept a photostatic copy, not a typewritten copy, certified to by the bank as being a true copy of the instrument.

That exception does not follow along to the individual.

We do not retain in our files certified copies of wills, nor do we retain indentures. Powers of attorney, however, we do retain in our files. It causes a great deal of adverse criticism, it is true. But, on the other hand, a transfer under power of attorney is possibly one of the most dangerous transactions that one has to handle.

Proof of Assignment

MR. ROBERT G. STEPHENS (Vice-President and Trust Officer, Trust Company of Georgia, Atlanta): Mr. Chairman, I should like to ask Mr. Condon what the experience has been on the question of transfer of certificates of stock out of brokers' names who are members of the New York Stock Exchange. I realize that in New York City where the banks can maintain a complete power assigned to them, those transfers can be made without guarantee of the bank receiving the transfer. In the South, however, and in other parts of the country removed from New York, we have frequently had presented to us certificates of stock either by local officers of stock exchange houses or others, where no bank guarantee appeared on the certificate, and they have insisted that we should transfer those certificates without any bank guarantee, and in a few instances without even the guarantee of the old office of the broker.

I should like to know if any other banks have had similar experiences and what their policy has been; also, whether or not under the rules of the Stock Exchange we would be required to make such a transfer without requiring the guarantee of a bank or banker.

MR. CONDON: It may interest you to know, gentlemen, that the Stock Exchange have no rule on the matter of transfers. They keep away from them religiously, and very wisely, because transferring of stock, if I might drift into the vernacular, is filled with TNT, and the Stock Exchange realize that fact, so they have no rules on the matter of transfers. The only regulation the Stock Exchange have is on the matter of deliveries between their own members. That wouldn't be a Stock Exchange rule. It is a question of procedure on the part of the transfer agents.

I would suggest this: that a corporation or its transfer agent is absolutely justified in requiring reasonable proof of the authenticity of the assignment. What constitutes reasonable proof? To my mind, it might be the middle line between what proof must be produced in court to sustain an action to force the transfer and the application of the rule of reason by the corporation or its transfer agent. I think you are quite justified in refusing to make a transfer unless you are satisfied as to the assignment or guarantee, the local broker to the contrary notwithstanding.

Of course, you have your problem here: you have your local brokers, whether they be members of the Exchange, or not. You know them. You know their work. We are trading on faith up North. We are taking the Stock Exchange guarantees on faith and we are taking the guarantees of small banks and trust companies on faith. So that you could very readily solve the problem here by taking the guarantees of local houses of whose responsibility you are satisfied.

Let me go further: If they are representatives of New York Stock Exchange houses, have them get from their New York office a set of signatures for your files of the members of that firm. I don't know how many houses there may be represented in Atlanta, but let's say there are twenty or thirty. That wouldn't be much of a file to keep. We keep a file list of about 1100 brokers alone, and our out-of-town bank files number about 1500. But I think that would solve your problem. However, let them understand that they have to do something more than demand. It always amuses me when somebody tells me that he is going to demand that I take a person's property away from him without being satisfied that he has consented to it by an assignment.

The Administrative Side of Trust Work

By F. P. SPRUILL
President and Trust Officer, The Rocky Mount Savings & Trust Co., Rocky Mount, N. C.

That the proper administration of trust work is the foundation of the success of the entire trust business, is claimed by Mr. Spruill.

After describing the essential records and books of account that are needed in trust administration, he emphasizes the desirability of keeping all records and reports so that at all times they can be understood not only by the officers of the trust company, but by the beneficiaries of the fund. "The records should be an open book as far as the family is concerned."

While a trust officer, in his relations with beneficiaries, must often be firm, positive and at all times in line with the law, he must on the other hand be human —that is, kind, gentle and sympathetic and possessed of endless patience.

No better advertisement for a trust company or trust department can be found than for a member of the community to state, "That trust company settled Mr. B's estate to the satisfaction of everyone. I am going to get them to settle mine."

ADMINISTRATION embraces the entire management of the property of an estate or trust from the time of the death of the former owner, or the time of the acquisition of the property constituting the trust, until the net balance is finally distributed among those entitled to receive it.

Where the deceased died testate, that is, leaving a will, and naming an executor, the executor makes a general appraisal of the assets of the estate, and offers the will for probate in the Probate Court of the county having jurisdiction of the particular estate. Where the deceased died intestate, that is, leaving no will, generally the person or persons legally entitled to qualify as administrator will have to renounce their right to qualify in your favor before the Probate Court having jurisdiction will allow your company to qualify.

In the matter of guardianship the appointment of guardians in North Carolina is left entirely to the discretion of the Clerk of Court of each county, and there is no right to be renounced by even the parents of the child, as the law gives this discretionary power to the Clerk. Upon qualifying as executor, administrator or guardian, as the case may be, you will be issued Letters Testamentary in the first case, Letters of Administration in the second case, and Letters of Guardianship in the third case. You are then the legal representative, and are ready to embark upon your duties as such.

Necessary Records and Reports

Your first record should be a RECORD OF LEGAL PROCEDURE containing pertinent facts relative to the particular estate. A regular loose-leaf ring binder, containing plain sheets, serves this purpose very well. This record should contain the following information relative to the deceased and the estate: 1—Full name. 2—Place of death, 3—Date and cause of death, 4—Legal residence, 5—Age, 6—Heirs at law and next of kin, 7—Date of probate of will or issuance of Letters of Administration, 8—A synopsis of the will, if one, 9—Date of payment of Inheritance and Federal Estate taxes, 10—Other miscellaneous information.

This record is to contain, in brief, all important facts relative to the particular estate which must not be overlooked. It is well to record here all claims filed against the estate so that you may not overlook a single one in closing up the estate. In this connection, it is very necessary to pay as promptly as possible all accounts due by the estate. Promptness in this matter alone will be a big asset to any trust company or trust department, because in this promptness it takes the place of that reputation

which has been built up by the indifference on the part of individuals settling estates as to taking their time in settling the amounts due by estates. In many instances, even the undertaker has been required to wait two years in our State before settlement is made of a man's funeral expenses.

Your first report will be an inventory of all the assets of the estate, the correctness of which is to be attested by your trust officer and filed with the Clerk of the Probate Court having jurisdiction. Your further reports will be made from your ledgers, which brings us to the subject of trust accounting.

Trust Accounting

It is well nigh impossible to prepare a standardized system of trust accounting which will meet the needs of every trust company and trust department. It has been found necessary by the great majority to work out their own individual system, suitable to their individual needs, always keeping in mind a system which will permit of indefinite expansion without any material change. I shall discuss the system which I have worked out for our institution and which has proved to be very efficient and entirely adequate for our requirements.

Combined Cash and General Journal.—This is the book of original entry and all transactions affecting the cash account of any estate, trust or guardianship are recorded through this book. We use the numerical system, assigning to each individual estate, trust or guardianship a number, which follows the estate, trust or guardianship throughout our administration. To the extreme left of the Debit side is a Column with the heading "No.", which is provided for entering the number of the estate, trust or guardianship affected. The second column is headed "Acct." If the posting affects a principal or corpus account, the letter "P" is inserted in this column, or if the posting affects the income account, the letter "I" is inserted. The third column is headed "Inv." In the event the posting affects the Investment account as well as the principal or corpus account, a check mark (√) in red ink is inserted in this column, calling the bookkeeper's attention to the fact that this item, in addition to being posted to the principal or corpus account in the Individual Trust Ledger, must be posted in the Investment Ledger also. I will discuss the Individual Trust Ledger and the Investment Ledger in just a moment. The next column is for the check mark of the bookkeeper after he has posted the item to its account in the Individual Trust Ledger. The next space is for the title of the account affected on the Individual Trust Ledger, followed by a space for memoranda as to the source of the receipt of cash. We use three columns for figures on the debit side of the sheet, Gross—Commission—and Net. We deduct our commission immediately upon the receipt of each item, on which we are legally entitled to a commission. This enables us to set up earned commissions on our General Ledger for the entire institution, thus reflecting a relatively true statement of profits at any time. Under the laws of North Carolina, administrators, executors, guardians, etc., are entitled to a commission of 5 per cent on all receipts, with few exceptions, the size of the estate more or less controls this, and 5 per cent on the payment of all debts for an estate. It is possible, therefore, in North Carolina, to ascertain the commission on each separate receipt without having to wait until the final account is filed with the Clerk of the Probate Court. We do not take our commission on disbursements, on which a commission is allowed, until we are ready to close the estate and file a final account. The credit side of this form, or the disbursement side is similar to the debit side, the columns, Gross and Commission being eliminated. The totals for the Commission and Net columns on the Debit side, and the total of the Credit side are posted to their respective controls on the General Ledger for the entire institution.

The Individual Trust Ledger—This ledger contains the cash accounts of all the estates, trusts and guardianships, showing in detail the receipts and disbursements, with thorough and descriptive memoranda for each item. Postings are made from the Combined Cash and General Journal to this ledger. You will note that this is a columnar form with a space for memoranda and columns designated, Gross, Commission, Debit, Net Credit, Debit Balance and Credit Balance. In the case of Guardian or Trustee Accounts, we use two sheets concurrently for each account, one for Principal or Corpus and one for Income. This enables us to show at any given time the earned and collected income available to the particular beneficiary or beneficiaries. From this ledger, your reports are made to the Clerk of the Probate Court having jurisdiction of the particular account, hence the necessity of your records showing a complete and thorough record of each transaction.

The Investment Ledger—This ledger contains a complete record of the Personalty assets, other than cash, belonging to each separate estate or trust. This is a columnar form providing for the separation of the assets as to Stocks, Bonds and Notes, with another division providing for a recapitulation of all three. When assets come into the hands of the fiduciary, they are recorded in this ledger, a space being provided for recording the source of the assets and a description of same. Purchases or sales of securities are recorded first on the Cash Journal and are posted from there both to the Individual Trust Ledger and to the Investment Ledger, the red check mark (√) on the Cash Journal, to which I called your attention, reminding the bookkeeper to post the particular item to the Investment Ledger. There is no control on the General Ledger for the Investment Ledger, as these investments are not a part of the general assets of the bank, but belong entirely to the individual trusts

and occupy the same position as securities held for safekeeping. The control for each account is the total of the securities actually held for that account, which are filed away in our vault in a separate pouch bearing the title and the number of that particular estate or trust. Also, we have a separate pouch for each individual estate or trust, in which we keep all records of every kind and nature pertaining to the said estate or trust, which papers are, at all times, kept separate and apart from all other papers or records of the bank and are filed away as a permanent record for each estate or trust.

As subsidiary records we use (1) a Sale Book, containing a record of personal property sales, showing the names of the purchasers, the articles purchased and the price paid for same, (2) a Rental Record, which is a card system showing the name of the estate or trust owning the property, the location of the property, the renter, the amount of rent per month and the date to which the rent has been paid, (3) a Real Estate Record, also a card system, showing the name of the estate or trust owning the property, the location, the appraised value, the tax value and the amount of fire insurance carried on the buildings. This last record provides ready information for the purpose of listing for taxation the property of the trust department. Unless a trust company or trust department is too large, all of this work can be handled by the trust officer as the executive head and administrator of trust work; the trust teller as an accountant in handling the details of the work, and the stenographer for making all reports, etc.

Other Salient Features of Administration

It is necessary that all records and reports be so kept that at all times they can be understood not only by the officers of the trust company or trust department, but by the family or beneficiaries of the fund. In other words, the records should be an open book so far as the family is concerned. Never try to keep any record from those who are entitled to know, especially when the record has to do with the charges in the administration of trust work.

When it is necessary, and often it will be in the administration of trust work, be firm, positive and, at all times, in line with the law, but, on the other hand, be human, that is, be kind, gentle and sympathetic. You are taking the place in many cases of some father, a most sacred relationship. Let your dealings with the family at all times be in such a way that you will not have to make explanations to them. You will be called upon to listen to the appeal of children, the appeal of widows, the appeal of beneficiaries. In many cases as a trust officer you will be called upon to visit the private homes of those whom you represent through some trust fund, and your advice will be sought in many cases touching on subjects entirely foreign to the administration of the trust. In such cases never lose patience and never take the attitude that you are only supposed to look after the administration of the trust, but be as flexible as possible and give the advice asked for in as conscientious a way as you would to your own family, regardless of the nature of the advice sought. Your speaker was just recently called upon for his advice as to the choice between two doctors for a disease some child had. This was a matter entirely foreign to the administration of trust, yet it was necessary to spend at least an hour with the mother of the child going into details, as mothers will desire, and then without harm to either one of the doctors to advise her what he honestly thought. In most cases the mother is going to do what she really started out to do, even after obtaining advice.

Regardless of the nature of the appeal, never let your feelings cause you to waiver, but, on the other hand, have in mind your duty as to the administration of this most important work. No snob or high hatter has any place in trust work. The administration of trust work is the foundation of the entire trust business. A poor administration, and your trust department will dry up. A successful administration, and it will grow. Business will come to you. Some man will say, "That trust company or trust department settled Mr. A's estate or acted as guardian of Mr. B's children, or as trustee of some fund to the satisfaction of every one—I am going to get them to settle my estate." No better advertisement for a trust company or trust department, regardless of cost. To have this said about the administration of a trust department means that you have worked hard, lived right and conducted your trust department on an open high plane for the purpose of serving creditors and beneficiaries with justice and no partiality.

So I say again, the foundation of the success and future of your trust department depends upon its administration.

Safeguarding Business Through the Life Insurance Trust

By JOHN A. STEVENSON
Manager Home Office Agency, Philadelphia, and General Agent, New York City, The Penn Mutual Life Insurance Company

That the life insurance trust is destined to become a powerful directive force in the safeguarding of American business was predicted by Dr. John A. Stevenson in an address before the banquet held in conjunction with the Second Southern Trust Conference.

By no means, he pointed out, is the necessity for adequate life insurance on the human assets of a business regarded in the same light as adequate fire insurance on property values—even though the hazard is far greater and the loss is always total. The life insurance trust, in Dr. Stevenson's opinion, offers the one and only practical solution to the problem of how to purchase or how to sell the interest belonging to the estate of a deceased member of a business organization. In such a transaction, the services of a trust company, as a disinterested agency, are essential to carry out the terms of the agreement and adequately to protect the opposing interests of the surviving partners and of the beneficiaries of the estate.

Lack of an earlier recognition of the value of the business insurance trust has been due to a number of reasons, notably, the complexity of the problems to be worked out in the creation of the trusts, and the fact that insurance representatives have lacked the educational background necessary for the task.

The questions involved in the business insurance trust need careful study. It is the function of the life insurance companies and trust companies to be able to point the way to the proper use of the instrument. "If we do our part," said Dr. Stevenson, "American business men are too keen not to realize the advantage of the life insurance trust in safeguarding the close corporation, the partnership, and frequently the one-man business."

THE president of the National Association of Credit Men recently described Business Insurance as "the parachute of American business, a device that properly utilized prevents fatal crashes." This description gives a pretty accurate picture of the part which business insurance can play. In a great number of cases that come up today, however, this parachute can be properly utilized only when the services of the trust company are combined with those of the life insurance company.

Each business insurance case presents its individual problems, but, ordinarily, business insurance is written for one of two general purposes: (1) to provide indemnity for the loss of a key man in a business, or (2) to provide funds for the purchase of an interest belonging to the estate of a partner or a member of a close corporation.

Covering the Human Assets of a Business

Cases like the Saks case in New York, which was given a good deal of newspaper publicity, illustrate the former of these two uses; that is, the use of life insurance to cover the human assets of a business just as fire insurance is used to cover the property assets—as protection against financial loss.

When Saks and Company erected their new department store on Fifth Avenue, a mortgage was given by the Central Union Trust Company. There was a bond issue to cover the mortgage. The trustees realized the value of Mr. Saks' life to the busi-

ness and, therefore, in the agreement between Saks and Company and the trustees, provision was made that Saks and Company should take out $1,000,000 of insurance on the life of Horace A. Saks to run for 10 years, payable to the Central Union Trust Company. At the death of Mr. Saks, a short time after the insurance was written, the possible financial loss was covered by the $1,000,000 of insurance.

An advertisement which recently appeared in the *Industrial Digest* asks these questions: "If good stock is worth fifteen times its earnings—what is a good man worth? If he earns $200,000 annually, is a capitalization of $3,000,000 too much or too little?" Business men are beginning to answer these questions by life insurance but by no means is the necessity for adequate life insurance on human assets regarded in the same light as adequate fire insurance on property values—even though the hazard is far greater and the loss is always total.

A short time ago I read an article by the Collector of Internal Revenue in one of the Southern States telling about a business man who, at the death of his former partner, was placed in an unfortunate financial position. A considerable sum in taxes was due the government. The estate of the deceased partner was insolvent and the surviving partner, with these debts placed upon him, was advised to file a petition in bankruptcy. The fact that he refused was pointed out as a splendid example of the pride that the average American takes in his good name and credit. No person could help having the deepest admiration for this man and his attitude on a question of honor. At the same time, if the unfortunate financial situation had followed a loss by fire, most of us in reading the article would have wondered why no fire insurance was carried. I venture to say, however, that few people who read the article raised a question about business insurance.

The recommendations of banks and trust companies have done much to stimulate the uses of insurance to cover human life values by recommending or requiring life insurance protection in extending credit. There are cases, too, where it is desirable to have this type of insurance paid to a trustee; for example, when a man wishes to make sure that the money will be used to pay the indebtedness of the business for which he is personally liable. More often, however, when insurance is taken purely for the purpose of indemnifying the corporation for the loss of a key man, the business wants the money during the readjustment period, just as it would want the money paid under a fire insurance claim, and the more frequent procedure is to have the money paid directly to the business.

The Only Method for Purchasing the Interest of a Deceased Owner

When we take up the question of creating a sinking fund through insurance to finance the purchase of an interest belonging to the estate of a member of a business organization, the life insurance trust, in my opinion, offers the one and only practical solution to the problem, whether the business is large or small, a partnership or a corporation.

It is said that "no man after dinner despairs of his country," so I suppose it would be useless tonight to paint a series of dark pictures of what may happen when no definite plan has been adopted for purchasing stock at the death of a member of a close corporation or for buying the interest belonging to a deceased partner.

We all know, however, that the gauntlet of hazards which an estate must run when it is comprised largely of stock in a large corporation, is rather appalling. A new invention, a change in styles, poor management may seriously reduce the income from the business investment, and there is always the possibility of unfair dealing. For instance, a little book sent out a few days ago by Nathaniel H. Seefurth, editor of the National Service Publications, tells of one case where the surviving stockholders of a profitable business are attempting, at the present time, to buy out the widow of one of the principals at a price that is just about half the real value of her interest. They are using a so-called "book value" in their attempt to convince her that their price is right.

A Protection to All Concerned

Also, we know that surviving stockholders often have a difficult road to travel. Another case mentioned in this same book of Mr. Seefurth's is that of a wholesale grocery business in Chicago where the surviving stockholders were ultimately forced out of the business because competitors came in at the death of a stockholder and bought his interest from the estate. Their greater financial resources enabled them to overbid the survivors and, once having secured a footing, they hampered and impeded the survivors in every way, made use of confidential information, protested at every expenditure for salaries or equipment or expansion of the business and finally forced the surviving stockholders to sell out at a loss.

Almost any business man would prefer to have his family receive the value of his stock in a close corporation rather than the stock itself. Likewise those actively engaged in the management of a business would rather keep the stock in their own hands. The value of life insurance, therefore, in financing a purchase plan of this kind is obvious, since the event which creates the need for ready cash supplies the funds.

In the case of a partnership the question of buying out the interest of a deceased partner, if the business is to continue, is not one of desirability but one of necessity. The death of a partner spells legal death for the partnership and, even if there is a partnership agreement providing for the purchase of a deceased partner's interest, this agreement is only as good as the ability of the surviving partners to carry it out. Substantial funds must be available if the interest of a partner is to be purchased at

his death and the most practical way of providing these funds is through life insurance.

A Disinterested Agency Essential

Every sound program for the purchase of the interest belonging to the estate of a partner or a member of a close corporation involves a trust agreement setting forth the terms of the transaction. This agreement, in my opinion, should always appoint a competent trust company as trustee. At the death of a partner or stockholder, his estate is bound to be on one side of the line and the surviving members of the organization on the other. While they may not be at swords' points, their interests are opposing. The estate wants to sell at the highest price and partners or stockholders want to buy at the lowest price. It is essential, then, that the transaction be handled by a disinterested agency and an agency which is experienced in dealing with affairs of this nature. Just as insurance is the logical solution to the problem of how to raise funds for the purchase price of the interest belonging to the estate of a member of a corporation or a partner who has died, the appointment of a competent trust company as trustee is the logical answer to the question of how the transaction shall be handled so that neither the estate nor the survivors shall receive an undue advantage.

Even in a one-man business, a man's desire to leave his business to his son, for example, may involve a purchase of the interests of other heirs, or his willingness to allow his employees to purchase the business may involve purchasing the interest from his estate. The problem in this case is much the same as the problem in the case of the partnership or the corporation and the only practical solution is through the life insurance trust.

A recent editorial in the *Saturday Evening Post* made this statement: "Most of us find the task of making a living, getting ahead in the world and providing a stake in life for the new generation a pretty difficult business. One of the commonest reasons for the slow and painful character of our progress both as individuals and as builders of business is the fact that we are not availing ourselves as we should of the instrumentalities which make life more easy and more secure, which increase the productivity of effort and save time and wear and tear. The list of such agencies includes countless items . . . . High upon the list we should see financial organizations of many varieties—banks and trust companies, the many sided insurance business."

As a matter of fact, when we read of stock purchase plans financed by life insurance trusts, such as the recent purchase of the stock in a great Western newspaper, which had belonged to the president, by those who were actually managing the business, and realize the countless complications avoided by the plan, we wonder why the life insurance trust plan is just now coming into general use among business organizations.

Reasons for Recent Development of Plan

There are, I think, three reasons: In the first place the public is just coming to look on life insurance as a means of replacing a man's economic value rather than as a die-to-win gamble. In the second place, it has taken the life insurance companies and the trust companies a good while to come to the realization that they can make more progress on the road toward business and estate conservation if they pull together rather than in opposite directions. Probably the chief reason is that plans involving stock purchase or the purchase of a partner's interest aren't always easy to work out to the satisfaction of all parties.

When any new method is introduced, whether it is a system of government, an educational theory, or a financial plan, it is usually hailed by its advocates as a panacea for all ills. When the new method is put into practice, however, we usually find certain limitations and there are usually certain difficulties to be eliminated before it operates efficiently. So with the plan of safeguarding business through the life insurance trust. We in the insurance world, for example, have been quick to recognize the value of business insurance but we have been slow about giving our representatives the educational background necessary for handling cases involving the purchase of stock in a close corporation or a partnership interest. As a consequence, relatively few life underwriters have had the initiative to acquire the knowledge necessary for presenting cases of this kind. Most of the larger trust companies have played an important part in developing the life insurance trust plan of business protection but all trust companies have not followed in line, thus limiting the field of operations. As a matter of fact, we all think of business insurance too much in terms of Wall Street rather than in terms of Main Street. This is a mistake. Newspaper notices of business failures and business interests for sale give us adequate proof, if we need it, that the new venture often needs business insurance protection more than the well-known, well-established corporation. It is not only the trust company with a clientele of important concerns that should be interested in the development of the business insurance trust.

Difficult Problems Faced

No person with any knowledge of the subject will deny that the life underwriter and the trust officer who are concerned with the creation of business insurance trusts often face difficult problems. Questions such as the proper beneficiary to be named, how the premiums should be paid, how the assets of the business should be valued, how the plan will be affected by taxes, need careful study. We aren't doing our part toward safeguarding American business, however, if we fail to learn how to use a tool as valuable as the business insurance trust.

In bringing up the question of how tax rulings affect business insurance transactions, I want to say that I think this question is often allowed to loom

up too high in importance, overshadowing more important issues. We are "treading on holy ground" when we attempt to plan for the future of a business organization and we do not want possible litigation to interfere with the success of the plan. Also, our recommendations involve transactions in future years with the possibility of widely different rulings. While it goes without saying that recommendations should be based on a knowledge of tax rulings, our situation, I think, is a little like a law student who made a complaint to an examiner because the question in a test did not cover statutes he had studied. "Well, what's the use of knowing the statutes," replied the examiner, "when some legislature may repeal all you know."

Dr. S. S. Huebner, Professor of Insurance and Commerce at the Wharton School, University of Pennsylvania, has predicted that before another twenty years pass life insurance as business interruption insurance will be used by American business men to an extent vastly in excess of the total of all fire and marine insurance in the United States. If this is true, it follows that the group represented by the American Bankers Association will, to a large extent, pilot the course of American business tomorrow. If we do our part, American business men are too keen not to realize the advantage of the life insurance trust in safeguarding the close corporation, the partnership, and frequently the one-man business. But if we, the life insurance companies and trust companies, are urging the use of an instrument in achieving business success, our part is to be able to point the way to the proper use of this instrument.

The Judgment of the Future

As a matter of fact, the life insurance trusts which we are creating today will, most of them, begin to function tomorrow and it is then that the judgment of today's life underwriters and today's trust officers will be exhibited before the world. Life insurance suffers today from mistakes made in the past and the plan of safeguarding business through the life insurance trust will not function with maximum efficiency in the future if we make mistakes today. However, with the ideals held up by the banks and trust companies and life insurance companies today, I think we need worry very little about the judgment of the future.

A recent article by a prominent educator points out the fact that the pattern of the new education includes, among other things, "the inspiring give and take of work in a group; a deeper integrity of thought gained by contact with realities; a spirit of inventive eagerness. If education builds on this pattern," he states, "it will assuredly become a powerful directive force in the building of a far more adequate civilization." We may use much this same pattern in cutting out our own work for the future. If our work is motivated by a spirit of give and take between the life insurance and trust companies, integrity of thought in dealing with actual cases and a spirit of inventive eagerness in solving human problems, there is little doubt that the life insurance trust will become a powerful directive force in the safeguarding of American business.

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Second Southern Trust Conference

Alabama	Kentucky	North Carolina
Florida	Louisiana	South Carolina
Georgia	Mississippi	Tennessee
	Virginia	

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PROCEEDINGS

Third SOUTHERN TRUST CONFERENCE

Montgomery
Alabama

APRIL 25-26
1930

TRUST COMPANY DIVISION • AMERICAN BANKERS ASSOCIATION

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THE THIRD Southern Trust Conference

THE development and sources of new trust business in the South was the principal theme of the Third Southern Trust Conference which was held in Montgomery, Alabama, April 25-26, 1930. All but three of the 21 speakers were Southerners and hence well informed of the special conditions in the South, which must be considered in extending trust business there.

The Conference was called to order by William C. Bowman, President of the First National Bank, Montgomery, Alabama, who, on behalf of the trust companies and banks of Montgomery, welcomed the delegates to the city.

The three sessions were presided over, respectively, by:

GORDON L. GROOVER, Vice President and General Trust Officer, Citizens & Southern National Bank, Savannah, Georgia.

JOHN C. MECHEM, President, Trust Company Division, American Bankers Association, and Vice President, First Union Trust & Savings Bank, Chicago, Illinois.

J. WARREN ANDREWS, Vice President and Trust Officer, First National Bank, Montgomery, Alabama.

Excerpts from the remarks of Mr. Mechem may be found on page 37; of Mr. Andrews on page 46, and of Mr. Groover on page 47.

One of the outstanding features of the Conference was the Banquet held at the Montgomery Country Club, Friday evening, April 25, at which William C. Bowman presided as Toastmaster, and Ben Johnson, President of the Commercial National Bank, Shreveport, La., was the principal speaker.

While Mr. Johnson's remarks were for the most part in lighter vein, he spoke of the unusual opportunities ahead for Southerners in the development of trust facilities. The growing interest on the part of the public, he said, was due to several primary causes—the diffusion of wealth; the growing intelligence and belief of the American people that the conservation of wealth is just as important as its accumulation; and the increasing number of people who are creating estates by buying life insurance and protecting that life insurance by placing it in trust. "The increasing complexity of our wealth and therefore of our estates," he declared, "is such that only corporate trust departments are equipped or qualified to settle and administer estates."

An invitation from the South Carolina trust men to hold the 1931 Conference at Charleston was presented.

Elements of Success in Performing Trust Service

By C. Alison Scully

Vice-President, Bank of Manhattan Trust Company, New York, N. Y.

The trust business is as technical as the work of the department of foreign exchange. It requires men fundamentally fitted and trained for the proper administration of trusts, and should never be left to the care of a bank officer or clerk having only commercial banking experience.

The trust department should stand on its own feet. Each of its services should pay its way and not be expected to serve and develop the commercial interests of the bank.

There is no more important element in the successful administration of trusts than the investment of the trust estate. Here there must be the highest standards of integrity and judgment. In observance of the rule in trust administration, that the only compensation to which a trustee is entitled is his statutory fee or that allowed by the courts, no institution can deal with itself and make any profit in securities, as customers sometimes suspect is done.

The main source of new business for the trust department is in the present customers of the bank. Selling trust service is unlike selling securities, life insurance or any other commodity; in that it is usually concerned with the fruits of a man's lifetime of work; the results will therefore be slow though sure.

The cooperation of officers and directors is necessary for various reasons. One is that by having their own wills naming the bank executor, there will be established among them a real and vital interest in the progress and welfare of the trust department.

And finally, a fair and uniform schedule of fees must be adhered to. No trust department gains in the long run by price cutting.

THE elements of success in performing trust service resolve themselves into two different categories. First, how to get the business, and second, how to handle it. Curiously enough, it seems to me, the order should be reversed. The first question is how to handle the trust business, and if it is handled properly and satisfactorily, the growth of the business will normally and logically follow the handling of it.

At the outset the institution should recognize that the trust department is a going organization which must stand on its own feet and must have adequate support. Only too often there is a mistaken belief on the part of the presidents of institutions, particularly some of the smaller institutions, that the trust field is a very profitable one, easily cultivated, and that all that is necessary is for the bank to announce that it has a trust department and revenue will flow into its coffers.

No trust department can be run by a receiving teller, in a cigar box under the counter. A trust department must be in truth and fact a trust department. The man in charge must be charged with duties having to do with the trust department and no other. He cannot in his spare time look after mortgages, help run the cages, or the loan department, and do a great variety of miscellaneous duties that do not concern the trust department itself. He must be a man fundamentally trained and fitted for the proper administration of trusts.

A Technical Business

It is a technical business, as you know. It can be acquired, it is true, but it is as technical as the administration of the department of foreign exchange. Merely because a man has been successful in another branch of banking is no sign that he is fitted to take

C. ALISON SCULLY

was born at Pittsburgh, Pennsylvania, on October 17, 1887. After graduating from the University of Pennsylvania in 1909 and from its Law School in 1912, he practiced law in Philadelphia. In July, 1920, he became Trust Officer of the Corn Exchange National Bank of Philadelphia and, in November, 1923, Second Vice-President of the National Bank of Commerce in New York, taking charge of its newly organized Trust Department, being appointed Vice-President and Trust Officer in April, 1926. In 1929, he became Vice-President of the Bank of Manhattan Trust Company. He is a former Secretary of the Corporate Fiduciaries Association of New York; Chairman of the Committee on Insurance Trusts, Trust Company Division, A. B. A.; and author of a monograph entitled "Insurance Trusts."

During the War, Mr. Scully served as Captain and Adjutant of the Fifty-first Infantry, Sixth Division, American Expeditionary Forces, and later with the Courier Service, United States Peace Commission.

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charge of the trust department. On the contrary, sometimes commercial experience gives a knowledge and an attitude that is entirely inadequate for the administration of trusts.

Preferably, the head of the department should be a lawyer. That gives him a chance to deal with lawyers and meet them more than half way. Furthermore, there must be sufficient personnel to take charge of the various duties connected with the settlement of estates. The trust department is not and should not under any consideration be permitted to be a service department of the bank. It is sometimes felt by commercial bankers that the trust department is a useful and pleasant adjunct to the development of the bank's business, and that when any transaction is presented that does not properly belong to any other department of the bank, it should be handled in the trust department; usually without compensation. This is not only unfair, it is unintelligent. The trust department should stand on its own feet, and if there is to be any recogntion of the value of services, those of the trust department should have the chance to pay their own way. You cannot expect the department to be on a service basis and expect it to make money.

Should Not Expect Free Services

Sometimes there are expectations that because a particular customer carries very handsome balances, any work he wants to have done in the trust department should be done without any compensation or fee. I find it appropriate under such circumstances to suggest that if a customer walks into a large department store and makes several hundred dollars worth of purchases in the jewelry department, he does not receive any dispensation of favor when he goes over to the furniture department.

Also, I find a singular lack of interest or sympathy when I suggest that I should be only too happy to accept a piece of business under a reduced schedule of compensation, but that we have several large estates in the trust department, and the next time anyone interested in those estates wants to borrow money, I shall bring him over to the banking department and expect a loan to be made to him at two or three per cent interest.

I don't mean that there is any hostility or lack of friendliness on the part of lending officers of the bank, but I do mean, because of the fact that the trust business in many institutions is in its infancy, there has grown up and prevails a belief that the trust department exists to serve and develop the commercial interests of the bank. It is vitally important that you should have the cooperation of the banking officers of the institution, that every item of business brought into the department earns its proper fee and pays it.

Trust service, as such, is being recognized more and more by the public and when properly presented, there is no reluctance on the part of the customer to pay a proper fee for the services rendered.

Must Hold to Highest Standards in Trust Investments

There is no more important element in the successful administration of trusts than the matter of investments. Here again the department must be operated to serve the best interests of the beneficiary and no one else. I have found in different instances that there is a belief that if a customer of a bank wishes to place a mortgage on his property, the trust department should provide funds with which the mortgage could be taken. This is not a proper conception of the duty of trusteeship. The question is whether or not the security is the best available for the estate.

In the matter of mortgages, if the customer wishes to place a mortgage, and there are funds in the trust department, and the mortgage is quite as good as any that could be gotten, it is all right to take it. On the other hand, I want to make clear, unless the mortgage is as good as can be gotten elsewhere, there is no justification for taking it in the trust department. The investments of the trust estate must be held to the highest standard of integrity and judgment. As you all know, it is improper, and illegal in every jurisdiction, for a trustee to make any profit out of its office. The only compensation to which it is entitled is that allowed by the court or fixed by statute. Therefore, no institution can deal with itself and make any profit in securities as customers sometimes suspect is done. I speak of these matters not because I am impugning motive or practice of anyone; and my function is not to condemn trust service, because you all well know what its elements of advantages are, and how well it is conducted. I am trying to point out some of the pitfalls due to lack of understanding on the part of those inexperienced in trust matters, of the sacred duties of trusteeship.

Sources of New Business

Now, as to the sources from which business may come, and the methods of developing it. First and most important—in fact, I might almost say, the only source is the customers of the bank. Developing business for the trust department is not like selling securities, life insurance or selling any other commodity; it is far different from persuading a man to open an account with the bank. All those transactions are isolated and revocable at will by the person who has the business. If a man doesn't like the security he buys, he can sell it. If he doesn't like the way the bank is handling his account, he can sign a check, withdrawing his balance. But after the will has been probated and the trust has gone into effect, it endures until it expires by limitation. And when a man who has spent a lifetime in obtaining an estate, comes to the making of his will, he makes a long study before confiding the care and management of his assets to any institution.

So, we must not expect results over night in our solicitation and development of trust business. They will come; they will be slow and sure; they will not be spectacular or easy to arrive at. Customers of the bank, particularly those who have had an established connection with the bank over a long period of years, are those most easily persuaded to make wills and name the bank as trustee. The officers of the bank enjoy the confidence of these men. In many instances they are intimate friends or relatives, and it is not hard to persuade such prospects to name the institution with which they have always done business in commercial matters.

I frequently hear such customers say that the lending officers know more about the prospect's business than the prospect himself and they would much prefer to have the judgment and the knowledge and experience of the lending officers than they would anyone who is in the business, or anyone on the outside.

The Avenues of Approach

The customers of the bank may be reached through several different avenues of approach. Which avenue is best will depend upon the number of customers, their location with respect to the bank—that is, whether they are easily accessible to the main office or adjacent to one or more branches, and the degree of contact which they maintain with the institution.

If the number is not too large, direct mail is a very satisfactory method. If the number is extensive, and the customers are located in a widespread territory, newspaper advertising is probably the most satisfactory method. I am a firm believer in the solicitation of and developement of trust business through personal representatives. The subject can be presented in a dignified way and the results quickly and satisfactorily obtained by having a representative of the department call upon the prospect individually.

There is a singular inertia among men in the matter of making their wills. A man may be convinced for months that he should make a will and appoint a corporate executor, but because of the press of other matters, and the fact that a will can be attended to the "day after tomorrow," it is postponed and postponed, and very often left until too late. If there are personal representatives of the bank to call on these individuals, to place information at their disposal, and to encourage the making of a will, the trust department will advance and prosper.

Cooperation of Officers and Directors

You should have the cooperation of the officers and the directors of the bank. The directors are usually people of influence and substantial means. Whether or not they name the bank as executor or trustee depends primarily upon the trust officers. But you cannot expect the directors of the bank to name the bank as trustee so long as the trust department is in the experimental stage. Once the trust officer has demonstrated his ability to manage a trust department satisfactorily, it becomes almost unnecessary to ask the directors of the bank or its other officers for their wills.

It is important to have the officers of the bank make wills naming the bank not so much for the value of their own estates, but because by having their own wills naming the bank executor, there will be established among them a real and vital interest in the

welfare and progress of the trust department which you couldn't get in any other way. If a man knows that his affairs are going to be handled by the trust department of the bank, he will be eager to have the affairs of all his friends and associates and customers of the bank handled in the same way. Nothing succeeds like success and the success of the trust department convinces the officers of the institution that they should name their own bank as executor and trustee.

There are a number of other sources of business on the outside—members of the bar, and life insurance men. It is probably unnecessary for me to elaborate on these two classes of business. When friendship of these groups has been earned, the business which they can influence will gravitate to the department.

Adherence to Standard Fees

Finally, as to compensation. The corporate fiduciary associations of the various cities have done valuable work in crystallizing the opinion of the banks and trust companies as to what is a fair rate of compensation. It is unwise for any institution to adopt a policy of cutting rates. If an individual wants a doctor to perform a surgical operation, or a lawyer to try a case in court, he doesn't find out which one's fee will be least and then retain him. The basis for the appointment of a trustee is exactly the same. The testator chooses his executor and trustee because he has confidence in the ability of the institution and its officers to administer his estate. The mere fact that a neighboring and competing institution might be willing to undertake the work for a somewhat lesser fee does not weigh in his mind, and usually any business awarded on the basis of shopping is not worth having.

I have had a number of experiences in which great pressure has been brought to bear to depart from the standard rate of fees because of the size of the estate and the magnitude of the interests involved. Experience demonstrates that your customers will think more of you and you will operate much more satisfactorily in the long run if you set your standard of rates and adhere to it. You will lose some business, but in the long run you will be vastly better off if you fix your schedule of rates and stick to it.

The greatest compensation of all is that which has already been mentioned by the chairman of the meeting. Trust business is different from any other business in that it is not a matter of barter and trade, or of bargain and sale. Our attitude is not to see how much commission we can get out of every estate committed to us. All we ask is a fair rate of compensation for the services we render. The prosperity of our departments is based on the total volume of business rather than upon how large a fee we can exact.

The Personal Equation

in Developing Trust Business in the South

By W. H. Neal

Manager, Public Relations Department
Wachovia Bank & Trust Company, Winston-Salem, N. C.

The accumulation of wealth in the South is largely a twentieth century development. It follows, therefore, that Southerners are not so "will-conscious and trust-minded" as those who live in the other trust centers of the North and the East. Another characteristic of the Southerner is that he thinks in terms of personalities largely rather than of organizations. Thus personal solicitation is developing rapidly, as trust institutions realize that the personal equation must be dealt with and that the most effective way is through personal contact.

To thousands of people, all trust departments are much the same, and the response to solicitation is due as much to the confidence inspired by the trust representative as to the strength and prestige of the institution. The trust solicitor must be carefully chosen, a primary qualification being an understanding of human nature; prospect lists must be carefully prepared and approved by the trust officer; and proper sales methods adopted.

The sales method that has proved most effective is one involving the preliminary preparation of the prospect and a tactful but persistent follow-up.

IN proving any equation we must begin with certain known quantities, certain facts which are immediately recognized and admitted as being true. So in dealing with the personal equation in the development of trust business we must begin with a known fact. We must know first of all that the institution which seeks to develop trust business has first developed a trust department that deserves and commands the respect of those whose business it seeks; a department that appreciates and willingly assumes the exacting responsibilities of trust management; a department that is equipped to render trust service according to the recognized standards of good practice.

Some, perhaps, consider this pronouncement so obvious as to be entirely elementary. But most of us know of financial institutions—some of them here in the South, though they are not confined within any particular geographical limits—wherein the establishment of a trust department has consisted of merely meeting the legal requirements and adding the title of trust officer to the official designation of someone on the banking staff. The possibilities for profit in the trust field have attracted some who would reap the profit without assuming the burdens, but such institutions have evidently given little thought to this personal equation which we are to consider—though many of them are advertising their ability and their willingness to perform fiduciary service.

Impressive Increase in Trust Appointments

In considering the personal equation in the development of trust business throughout the United States there is particular significance in the figures revealed as a result of the nation-wide survey recently conducted by the Trust Company Division of the American Bankers Association. It was found through this survey that trust institutions had been appointed executor or trustee under wills 60,036 times during

WILLIAM H. NEAL

was born at Charlotte, North Carolina, Dec. 19, 1896. He attended Davidson College from which he received the degree of A.B. in 1917. During the World War he served as Second Lieutenant of Field Artillery. After two years as instructor in mathematics at Greenbrier Military School in West Virginia, he accepted a position with the Charlotte National Bank of Charlotte, N. C., in 1920. The following year he was elected Assistant Cashier and placed in charge of advertising and new business. In 1929 Mr. Neal severed his connection at Charlotte and became connected with the Wachovia Bank & Trust Company with headquarters at Winston-Salem, as Manager of the Public Relations Department. In this position he has supervision of all new business work for the entire Wachovia system with its seven offices in five cities, including the development of trust business. He is an active member of the Financial Advertisers Association, being a member of its Trust Development Committee.

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1929. In two years' time the total had more than doubled. Furthermore it was found that 150 institutions received 100 or more appointments under wills during the year. The increase in appointments for a seven-year period is particularly impressive. In 1923 the total was approximately 6,000; in 1929 it was over 60,000, an increase of 1,000 per cent. But the figures reveal more than mere numbers. Last year there were 1,086 appointments of banks and trust companies in estates of over $1,000,000, and the probate records of the country give further evidence of the growing popularity of trust service by listing an imposing array of distinguished men and women in many walks of life who intrusted the handling of their estates to trust institutions.

These figures represent real accomplishment, the result—not merely of advertising, though advertising has been a tremendous force in the education of the public in trust affairs; not merely the result of good service rendered, though the record of the trust men of America is one of the strongest arguments for new business—these splendid attainments in developing trust business have been due largely to the rapidity with which trust institutions have recognized the importance of the personal equation in securing new business, and have set up sales organizations to deal effectively with that personal equation. In 1923 when less than 6,000 appointments were reported, a great many trust companies were still debating the ethics and efficacy of employing personal solicitors to secure trust business. I do not know the present extent of personal solicitation in an organized manner, but of the 150 banks and trust companies that secured over 100 wills each last year I venture to say that there are few that do not have an organized sales force actively soliciting new business.

Personal Trust Solicitation Growing

At first the practice of sending out salesmen from our trust departments was regarded with fear, distrust and suspicion, lest the discussion and solicitation of such an intimate thing as one's will should offend the finer sensibilities of our best customers and prospects. The practice was declared unethical, its opponents said that it was wrong in theory, but they were unable to explain its successful operation in practice. Today it is recognized as the approved method of securing desirable business in profitable volume. In the South we have an ever increasing number of live, active trust institutions that are sending out trained and experienced trust representatives who are carrying the message of trust service to thousands of Southerners who need this service and who are showing their appreciation of its value through appointments in constantly larger and increasing volume.

The Wachovia Bank and Trust Company for more than ten years has been employing special, trained solicitors, who devote their full time to this activity. During this time these solicitors have interviewed thousands of prospective will-makers. Occasionally they find a person who refuses to discuss the subject, but for every such person there are dozens who gladly talk of their estate problems, showing keen interest in trust service. The result of these years of active solicitation has been a large volume of appointments that would never have been secured otherwise, and as an important by-product these men have interpreted our institution to thousands who thus have a better knowledge of its services.

Personal solicitation is growing in the South. A survey of 75 leading trust institutions of the South reveals the following interesting figures: 19 of the 75 are employing at least one or more full time salesmen —a total of 25 salesmen being employed. Sixteen institutions are using their trust officers as whole or part time solicitors. Eight are preparing to send out full

time men, and 32 as yet have taken no definite steps. The vote, therefore, is in favor of personal solicitation by a good majority. But now that we recognize the practice as a successful one, a word of caution may be in order lest some employ it without proper preparation. We must first be sure that our service is of the type that will stand the test of organized sales effort. A good product is the first essential of a successful salesman. Given the right kind of service, there is much more to be done than merely employing a few men and sending them out. Presenting the trust idea requires training, specialized knowledge, tact, and salsemanship of the highest order.

Special Characteristics of the South

At this point, it may be well to inquire into those peculiar temperamental qualities that determine the personal equation as we experience it in the South.

Substantial estates in the South have been largely a development of the present or the immediate past generation. They have not been handed down through successive generations, and consequently the need for trust service on a large scale has been a recent development. The accumulation of wealth in the South is a twentieth century accomplishment. It is, therefore, quite evident that Southerners are not so "will conscious and trust minded" as those who live in the older trust centers of the North and East. Another element in the personal equation is that we in the South place more emphasis upon the individual than upon the institution. To us the First National Bank is Jim Jones, the Vice-President, or the First Trust Company is George Brown, who happens to be the trust officer. We think in terms of personalities largely, rather than of organizations. This is an important thing to consider in the solicitation of trust business. Our trust solicitor is the personification of our institution in the eyes of our prospects. A man may be persuaded to make his will and appoint the bank or company executor largely because of his confidence in the trust representative. The standing of the institution in the community is of course important, but to thousands of people all trust departments are much the same and their response to solicitation is due as much to the confidence inspired by the trust representative as to the strength and prestige of the institution—a point that may be well remembered when selecting salesmen for our trust department.

We must therefore conclude that the personal equation plays an important and vital part in trust development in the South. For that reason it is all the more important that we employ men of the highest type who will constantly and consistently carry the message of trust service, devoting their entire time to the undertaking, and operating under a well established and properly equipped sales organization. Once an institution has definitely decided to organize a sales force and actively solicit trust business, there are three things to which careful consideration must be given. The representatives must be carefully chosen, the prospects must be carefully selected, and the sales methods must be carefully planned.

Fundamental Qualifications of a Trust Solicitor

We cannot say too much about the men who are to act as the representatives of our trust departments. I hesitate to give any description of a good trust solicitor lest I be charged with attempting to paint the picture of a perfect specimen of the species—a product of the imagination which does not exist in reality. He must be a high grade man—a man of unquestioned sales ability (and I place that qualification first) a man of education, and a man possessed of an abundance of good common sense. There are numerous other qualifications that might be specified, but given those mentioned, he is excellent material out of which to build a good trust solicitor. Previous experience and knowledge of trust business are not essential to begin with, for these can be acquired to a sufficient degree in a reasonable time.

About three years ago a special committee of the Financial Advertisers' Association made a survey of the leading trust institutions of the country, seeking to formulate a composite opinion as to the fundamental qualifications of a successful trust representative. I would like to quote from the summary of that report, for it gives in concise form the opinion of a large number of successful institutions.

"Your Committee," the report states, "feels that the trust development representative, whether he be the trust officer or a specialist, is one of the most important men in the organization. He is in daily touch with the public, many of whom never have any other contact with the bank. The impression he leaves will be the prospect's impression of the institution he represents. He must be a high grade, well paid, well educated, well trained individual, ranking in standing with the officers of the institution."

The question naturally arises, Where shall we find such men? They are seldom found ready-made. Sometimes we find the material in our own institutions, but most of the successful solicitors have come from the outside, without any previous experience in either bank or trust work. If they have the necessary qualifications they can be trained within a reasonable time to produce satisfactory results. The essential thing for the solicitor to know and understand is human nature—the personal equation—and with that knowledge he will talk more about protection for families, more about the importance of providing income to supply the comforts and necessities of life, and less about the technicalities of will-making and the legal phases of trusteeship.

The Prospect List

The second thing to consider is our prospect list, for with properly equipped trust solicitors, we must supply them with names of people to call on. We must determine where the market for our service lies. Our prospects come from a number of different sources. The first list to be checked is that of our officers, directors, and stockholders. Every officer and director must be sold on our trust service, not merely to admit of its merits, but sold on it to the extent of using that service in whatever way it can be helpful in solving the problems of his own estate. Nothing is more embarrassing in trust development work than to have the estate of some officer or prominent director pass into other hands for administration.

Our customers come next. They are our most logical prospects. At the Wachovia Bank and Trust Company we devote a great deal of time to the preparation, up-keep, and revision of our prospect lists. At each of our offices the officers from the banking department and the trust department have combined their knowledge of and experience with the people of the city and community in the selection of those whose estates could be handled with profit, as well as those who could and should establish profitable living trusts, insurance trusts, or give us other desirable fiduciary business.

There are many other sources of names of good prospects. Advertising will produce some, present customers will recommend their friends and acquaintances, and officers in all departments should be constantly reminded to be on the look-out for trust prospects. In making up our lists we are careful to select only those who have good, liquid estates to receive our first attention. We never like to refuse business that is offered to us, but we certainly do not expect to have an expensive solicitor waste valuable time trying to secure unprofitable business. Every name on our prospect list is approved by a trust officer before any solicitation work is done.

Sales Methods and Approach

The third thing to consider is our sales methods. How shall we approach our prospect? Among institutions that have been actively soliciting trust business over a period of years there have developed two distinct methods of approach. One method is to have the solicitor call upon only those prospects who have been carefully prepared in advance by direct mail advertising, by previous interviews with officers, or by having some friend or acquaintance recommend the service of the trust company. The other method is to give the solicitor merely the name and address of a desirable prospect without knowing in advance anything about his attitude toward the service. From our own experience at the Wachovia we find that there is no fixed rule to follow. Each prospect must be considered individually and that is one of the reasons why our trust representatives must be men of judgment. Both methods of approach have been used with success, but we do know that if the salesman can form some point of contact through an introduction or through some previous experience of the prospect with the trust department there is a much better chance of securing attention from the very start.

None of our four trust departments are located in cities of more than one hundred thousand population, and for more than thirty years Wachovia has been advertising and performing trust service throughout North Carolina. It is therefore apparent that our representatives call on very few prospects who have not heard of our service, or with whom they cannot form some point of personal contact almost immediately.

Tactful but Persistent Follow-up

Once the proper contact has been established and interest has been aroused, then the follow-up must be tactful but persistent. Some institutions have elaborate follow-up systems, but our experience has taught us to use very simple systems and to keep our men constantly talking to prospects. We require a brief report on each interview and every man knows what he is expected to produce in the way of results. He also knows that if he does his work well he is in line for promotion and increased salary. If we have selected the right kind of men we find that this furnishes sufficient stimulus to keep them producing in profitable volume.

Effective trust solicitation therefore, depends upon the selection of the right kind of salesmen, the preparation of good prospect lists, and the adoption of successful sales methods. Throughout the South trust institutions for years have been advertising the advantages of fiduciary service. It is only recently though, that they have begun to reap the harvest from the seeds that have been sown. Personal solicitation of trust business in the South is developing rapidly now that our institutions realize that the personal equation must be dealt with, and that the most effective way to deal with it is through personal contact.

Our Most Successful METHODS in Acquiring New Trust Business

A SYMPOSIUM

Advertising, personal solicitation, and efficient management are common methods reported by the six contributors to this symposium. However, an interesting variation is revealed in the different emphasis that is laid upon individual elements in new business development. Transforming a prospect's wife from an opponent to an enthusiastic advocate of the corporate trustee has frequently proved to be the determining factor in acquiring new business, states A. Key Foster of Birmingham, Ala., while J. E. Schroeder, of Charleston, S. C., attributes most of his bank's success to the power of attraction that lies in the efficient manner in which present business is conducted, and to acquainting clientele with the bank's methods and processes of management. T. O. Trotter, of Chattanooga, Tenn., considers that the growth in trust business in his bank has come from using an experienced trust officer rather than a high pressure salesman as trust solicitor. E. J. Risley, of Little Rock, Ark., traces the chief source of business for his trust department to the customers of other departments in the bank, while Paul S. Stonesifer, of Roanoke, Virginia, points out the prominent part played in a small community by personal contacts and friendship between officers and the public. The importance of enlisting the aid of directors, officers, stockholders, employees and customers, in developing trust business, is stressed by Herbert Fox, of Nashville, Tenn.

Overcoming Opposition from Wives of Trust Prospects

By A. KEY FOSTER

Assistant Trust Officer, Birmingham Trust & Savings Co., Birmingham, Alabama

IT is now generally conceded by all trust companies throughout the country, that personal solicitation is the most successful method of trust development. Of course, we all recognize the fact that advertising, of an educational nature, is essential to prepare the minds of prospects, before personal solicitation is undertaken.

However, assuming that the ground work has been laid and that we recognize personal solicitation as the proper method of trust development, then I come to a discussion of some of the difficulties to be overcome in selling our trust prospects, by personal solicitation.

I believe that probably the most distinct opposition to the trust idea is found among wives of the trust prospects. The wife of a prospect feels and, perhaps, quite correctly, that she is on an intellectual equality with her husband. She has advised with him on his problems of investment and has, as a matter of fact, been a silent partner with him in the creation and conservation of his estate. Now when her husband comes to consider the problem of his will, she feels a very distinct resentment at the trust plan, because of two prevailing ideas that come into her mind as soon as her husband mentions placing his property in trust. Each of these ideas, I consider, is not only

A. KEY FOSTER

was born in Cuthbert, Georgia, Nov. 10, 1895. He received the degree of A.B. from the University of Alabama in 1916 and LL.B. from Harvard Law School in 1920. During the World War, he served as Second Lieutenant in the U. S. Air Service. From 1920-26 he practiced law in Birmingham, Ala., as an associate member of the firm of Bradley, Baldwin, All & White. He was then for two years in charge of the real estate department of the trust department of the Birmingham Trust & Savings Co., and was elected Assistant Trust Officer in February, 1927. In April of that year, he organized the Trust New Business Department for the Company and in 1929 organized a New Business Department for the entire bank. He has been in charge of all new business work since the organization of the department and has had charge of all advertising for the bank since April, 1927.

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entirely aside from the question at hand, but is based on an unsound premise.

First, she feels that her husband does not appreciate her intellectual ability and feels that his desire to place his property in trust is simply and solely an affront to her mentality.

Second, she distinctly dislikes the prospect of having to call upon some unsympathetic and, as she pictures him, hardboiled trust officer each time she may need any money. Of course, we recognize the fact that, in all probability, the trust officer will not be hardboiled or unsympathetic if for no other reason than because of his selfish interest in retaining the good wishes and cooperation of the widow, and also that it will be very seldom, if ever, that she will have occasion to approach the trust officer regarding her income. In almost every instance, however, the wife pictures him as being one absolutely lacking in an understanding of her needs. She thinks that it will be necessary for her to divulge her most personal affairs to the trust officer in order to induce him to give her such an income as is needed by her for her comfort and that of her children.

The plan that I have followed in overcoming this opposition on the part of the wife of the prospect, I consider my most successful method of acquiring new trust business and it is this procedure that I would like to pass on to you for what it is worth.

Preliminary Conference With Wife

When the prospect tells me that his wife objects to the trust plan, I immediately urge him to bring his wife to the bank for a conference. When she comes in I usually find her in more or less of an antagonistic mood. She takes the position, somewhat, of defying me to convince her of the desirability of the trust. The first step in my plan is to point out to her in detail the machinery of the trust department. In other words, let her see the wheels turning. I show her what each subdivision of the trust department does in the management of an estate. In this manner I impress her with the great amount of work that will fall upon her in the proper handling of the various items of her husband's estate, if it is left to her outright. Next I point out to her that her husband has absolutely no selfish interest in this trust plan, inasmuch as it will not go into effect until after his death and that, therefore, unless the plan meets her needs in every respect there is no need, whatsoever, for it. I then explain to her that the trustee's fee in any one trust estate is so small that there is no particular advantage to the trust company in securing her husband's estate in trust, unless the trust company can be fairly certain that it can render to her and to her dependents such an outstanding service that they will become very strong exponents and advocates of the trust idea, so that in years to come the trust company may expect to receive numerous other trusts through expressions of good will broadcast by the beneficiaries of this particular trust. For that reason, I assure her, the trust company has a selfish interest in seeing that she is pleased at all times that this can be accomplished without unnecessary sacrifice to the estate.

A Distinction Between Intelligence and Business Experience

Next I point out to her that there is a very real distinction between one's intelligence and one's business experience. I show her that no matter how intelligent a person is--business experience can only be had by the purchase of it or by adopting the trust plan. Her husband has purchased his business experience and she also, in years to come, if she is called upon to administer the estate, will find that she must pay cash for her knowledge of business; unless her husband employs, for her, the business experience of a capable trust company. Business experience is the only valuable asset of his estate that her husband can-

not possibly devise to her. However, when it becomes necessary for her to purchase business experience in order to protect the estate which her husband has left to her, she will find that whereas her husband paid for his business experience early in life, from his earnings, she must purchase her experience from the corpus of the trust estate, thereby diminishing the capital and reducing the income on which she must live. I find that this appeals to her sense of reason and that she will relax her attitude of defiance to the trust idea.

The next step is to say to her that she has perhaps heard of cases where the widow expressed distinct dislike of the trust idea; and, perhaps, where the widow was unable to induce the trust officer to advance money to her which she felt necessary for her comfort. I explain to her that such a situation arises through no fault of the trust plan, but in every instance through some oversight on the part of the testator or on account of some arbitrary attitude that the testator took with regard to his wife and her income when creating the trust. I emphasize to her that the trust idea is thoroughly flexible—that a trust agreement, when properly prepared, not only can give her complete freedom with regard to the management of the estate, but also can relieve her of all of the burdensome details of such management and of all the responsibility for its protection.

A fact that seems to appeal most strongly to her is the fact that she will, in all probability, not be called upon to manage this estate until she is well along in years, perhaps, an old lady, at which time, if ever in her life, she is entitled to relief from care and responsibility.

Her Wishes Will Be Consulted

I point out to her that as a matter of policy the trust company will consult with her and carry out her wishes whenever possible in the administration of the estate. However, if she expresses a doubt as to whether or not the trustee will consider her wishes, I then point out to her that the trust company will be glad to have her made joint trustee, under the trust instrument, so that she will have equally as much control, over all of the investments, and will have just as much to say about the management of the estate as will the trust company. At the same time the experience of the trust company will protect her against unsafe investments and against the likelihood of dissipating the principal. Any part of the principal is available if the income proves insufficient for her needs at any time or under any circumstances.

I have found that another very convincing argument, is to say to her that even though you, the wife, may be entirely capable of distinguishing a good investment from a bad one, you will probably be continually pursued by salesmen offering to you questionable securities simply because you are a widow and, therefore, assumed not to be experienced in investment matters. Even though you do not purchase one of these investments, you will be constantly harassed. Another consideration which appeals strongly to her is the fact that well meaning relatives and friends will make every effort in the world either to direct her investments for her because they feel she needs assistance, or to borrow her mony from her without proper security. I dare say that every trust officer present knows of several distressed examples which he can call to her attention to make this point impressive.

Finally, I emphasize to her the fact that the trust company may be used by her simply as her financial secretary and advisor thereby enabling her to maintain her social contacts and continue to give her attention to her home and friends; which pleasures she would otherwise have to forego in order to administer the business affairs of the estate.

Becomes an Enthusiastic Advocate

By this time I find that I may enter into a discussion of the trust provisions to take effect after the death of the wife, discussing the proper time to deliver the principal to the children. She has become in thorough accord with the trust idea and will join in the discussion enthusiastically and with very definite opinions on the subject, having unconsciously waived her objections and accepted the trust plan, as she should.

In a few instances I have found it necessary to have more than one conference with the wife because, after she goes away from the trust company, certain questions arise in her mind which she feels should be settled with the trustee before she agrees to the plan. However, she will come back of her own accord for a further conference and, after proper reassurance, will see that her husband signs the trust instrument without too much delay.

I consider this a sound problem in psychology the soundness of which has been proven by the fact that I have been able to sell the trust plan to the wife of the prospect in every instance where the prospect is able to induce his wife to come to the trust department for a conference.

I feel that our great mistake in the past has been in taking the position that the wife is not mentally capable of protecting her own interests. She resents such an implication. The sooner we get away from any mention or discussion of her capability and, instead, emphasize to her the vast amount of trouble, inconvenience, worry, harassment and expense to which she will be subjected in personally managing her husband's estate, so soon will we find that the wife is the greatest advocate of the trust idea to be found.

Efficiency of Management the Best Advertisement

By J. E. SCHROEDER

Vice President and Trust Officer, Citizens & Southern Bank, Charleston, South Carolina

IT is generally recognized that the majority of trust cases closed, are created through the usual advertising sources and follow-up methods. However, in discussing various successful methods used in obtaining new business, it might be well to dwell for a few moments on the power of attraction that lies in the manner in which a fiduciary conducts the business it now has.

When it is indicated how certain phases of a trust are handled, it is quite possible, through recommendation or otherwise, to create inquiries from directions that can ultimately be developed into additional business. People are quick to observe the capacity of an institution to manage their problems, and in just such measure of efficiency as a trustee manifests in its service, so will that response be, that we all desire and strive for.

That service may be demonstrated in various ways. The care and parental interest shown by the corporate guardian in its ward, whose impaired health made hospital and medical attention necessary, has been known to have developed into some nice permanent trust work. The minute and painstaking effort expended by a corporate fiduciary in managing the affairs of a minor during minority, has been so indelibly impressed on the beneficiary, that on attaining majority, the trust was continued in the form of a living trust.

Impressed by Trustee's Attitude

The willingness and earnest endeavor of a trustee under a living trust to do many things more than were expected of it, attracted the attention of a son of the creator of that trust. He was thoroughly impressed and being a life insurance underwriter has, with this actual opportunity to observe, been able to and does direct many new trust prospects to the institution that might otherwise never be reached. Incidentally his business has been materially increased. The methods followed in the preparation of the deeds connected with certain trusts came under the observation of another life underwriter, with the result that he promptly placed his life insurance in trust with an institution and is now arranging his will naming it as executor and trustee.

JULIUS E. SCHROEDER

was born in Charleston, South Carolina. After attending the public and high schools of that city, he entered the service of the Citizens & Southern Bank in 1912, advancing from Savings Bookkeeper, Commercial Bookkeeper, Discount Clerk, to Assistant Cashier, Cashier, and is now Vice President and Trust Officer.

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A Practical Demonstration

There is considerable opportunity for a corporate fiduciary to show to those with whom it already deals, as well as to prospects, that its stewardship includes at all times, a real purpose and aim to make it possible to obtain for beneficiaries a maximum of benefit to them, consistent with safe business principles as well as the proper conservation of the trust. When the bread-winner of the family is gone, there is great need for an experienced guiding hand and a strong support to lean upon. A display of real human sympathy, careful study of the needs, and a warm interest in solving the family problems, may do much to demonstrate the effectiveness of the fiduciary's service.

It is my belief that most people not only need, but really want the fiduciary services that our financial institutions are ready and prepared to render. However, there is yet prevailing much prejudice and lack of understanding, which act as a powerful sales resistance. This could possibly be overcome to a large degree, by an institution endeavoring wherever possible and consistent with the highest standards of ethics and propriety, to acquaint its clientele with its methods and processes of management.

Therefore, an institution may, by its mode of management, draw its clientele closer to it and through these contacts attract new sources of business.

Employing an Experienced Trust Officer as Full Time Solicitor

By THOMAS O. TROTTER, Jr.
Assistant Vice President, First National Bank, Chattanooga, Tennessee

THE *one* method from which we have derived the best results in obtaining new trust business is the use of an *experienced trust officer* as a *full-time solicitation man.*

We, like all other banks, have tried the various kinds of new business programs, such as regular newspaper advertisements, carefully selected mailing lists for letters and pamphlets, window displays of booklets and appropriate pictures, radio talks on trust subjects, trust talks to civic clubs, a trust "school" for all our officers and employees, etc. But in the last analysis, all of the above are simply forms of indirect solicitation, that are merely preparatory to the real business—getting medium of personal solicitation. We cannot escape the conclusion that we must go after the business: it won't come to us. And there are four reasons why it won't: (1) Procrastination on the part of the great majority of those who need trust services; (2) Ignorance of trust functions, and a state of uncertainty of mind as to just what disposition should be made of their property; (3) A vaguely defined fear of the cost of corporate fiduciary services; (4) A superstitious idea that any conscious planning along these lines in some way hastens death.

Must Be Sold by Trust Expert

Assuming then, as we all must, that it is necessary to go out and solicit trust business, we have found that the most successful method of doing this is by using, as our full-time trust solicitation man, an officer of our bank who was, for a period of more than two years, one of our active trust officers, and who is therefore fully capable of discussing with the prospects the intricate details of estate analysis, and the various plans for wisely disposing of one's property. The point we are making is, that trust services, to be widely sold, must be sold by an expert in the trust business. The average high-pressure "go-getter" type of salesman is ill-suited to market trust services. Such services cannot be sold in the same manner as safety deposit boxes or savings accounts, or automobile tires or jack-knives. Something more than mere sales ability is required. Thanks to the recent educational propaganda of trust companies, the public is becoming so well informed as to the general formulae of trust functions, and so searching in their questions, that no one but an experienced trust officer is competent to discuss these matters with them.

THOMAS O. TROTTER, JR.

was born at Chattanooga, Tenn., May 28, 1900. After graduating from the University of Virginia in 1920 with the A.B. degree, and from Harvard University in 1924 with an LL.B. degree, he practiced law in Chattanooga from 1924-28. He has been Assistant Trust Officer of the First National Bank of Chattanooga since 1928.

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Most banks at the present time keep such technically trained men on the inside of their trust departments for the administrative and executive work of handling estates; and send out untrained salesmen of the "high-powered" type to solicit trust and other banking business. We suggest that all banks that wish to make their new trust business really grow, consider seriously the advisability of using an experienced trust officer as the solicitor to interview prospects. Usually such a man, if he has had any general banking experience, can also be used to solicit new commercial accounts as well; but his primary activity should be along trust lines, with the other merely incidental. The size of the particular bank and community will have much to do with this.

Two Essential Qualifications

The man whom we are using at the present time has handled all types of trust problems for us for a period of over two years. He carries the title of assistant vice president. He has been highly successful in his solicitation work throughout the city and community. This, we feel, is due to his two essential qualifications: (1) He has a thoroughly practical knowledge of the details and mechanics of trust work. He is an expert on estate analysis. He is able to answer the many searching questions which our increasingly educated public is asking every day.

(2) He is able to capitalize the prestige that a vice president's title carries with it. Prospects who are interviewed naturally pay more attention to the remarks of an *officer* of a bank than of a mere salesman, and usually feel flattered that an official has seen fit to take the time to come and see them. Naturally, they are in a receptive and responsive attitude to whatever this officer has to say; and so when he touches on trust subjects, and brings also a highly trained technical knowledge of trust laws, provisions of trust instruments, and the details of trust department work, (such as probate procedure, administration, investments, etc.), his remarks naturally carry much weight with the prospect and usually result in the acquisition of new business.

This is our own most successful method of obtaining new trust business, and we suggest that other banks, which are of sufficient size to warrant it, make use of a similar plan.

Other Departments the Most Profitable Source of Trust Business

By E. J. RISLEY

Vice President, Bankers Trust Company, Little Rock, Arkansas

WHEN invited to participate in a symposium on "Our Most Successful Methods of Acquiring New Trust Business," I thought that it might be of interest to analyze the present active accounts that we are administering to find out from what sources this business had come to us. Ours is a bank of $600,000 capital, and an average of $12,000,000 deposits, in a city of 125,000 population, and our trust department has been conducted as a separate unit since 1923. I found that 65 per cent of our active accounts under administration had come to us because of accounts maintained in other departments of the bank, that 4 per cent of the accounts were directly traceable to newspaper and other advertising, that 9 per cent were turned over to us by attorneys of our city and that 22 per cent of the active business under administration had come as a result of direct solicitation.

It will be seen that our past experience has been and our future experience will likely be that the greater part of our trust business will come from sources that are now actively identified with our bank as depositors, investors and through savings accounts. I shall demonstrate this by citing a recent experience which we have had.

E. J. RISLEY

after attending Mount Carmel, Illinois, High School, worked as yardmaster's clerk for the Big Four Railroad before employment, in 1917, by the Bankers Trust Company at Little Rock, Arkansas. He attended Arkansas Law School, and in 1923 was elected Vice President and Trust Officer of the Bankers Trust Company, Little Rock. He was instrumental in securing the adoption of a uniform schedule of fees in Little Rock; has served on National Committees of the American Institute of Banking; and has been an active exponent of corporate fiduciary service.

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Large Results from a Small Beginning

About six years ago, we had a depositor who had the good fortune to discover oil, and at that time we were able to secure but a very small share of this depositor's business, and although we used several methods of interesting this depositor in trust services, the depositor never used the trust department. Subsequently, the depositor died and an old friend of the family administered the estate, but as the distributions were made to the decedent's nieces, two of them established voluntary living trust accounts with us, as did two of their adult children. Subsequently, the husband of one of the nieces died, and we administered upon his estate and were appointed guardian for his two minor children. Due to these contacts with the heirs, we later secured the appointment as trustee of the original estate in the distributions from which they participated, upon its being closed by the executor. As a result of this contact some years ago with our depositor, our trust department now has a testamentary trusteeship, three living trusts and two guardianship accounts, a total of six accounts, all of a substantial nature.

It is my opinion that our best field for trust services is in the cultivation of the prospects who are already using other departments of the bank, and thereby are acquainted with the bank's personnel and the bank's

policies, for it has been our experience that the contacts established by other departments of the bank largely help to open the doors for us to engage the attention of our prospective clients for trust services. Thus the good will which depositors and the public generally have for a banking institution, is in my judgment, one of the most powerful factors to be used in the cultivation of new trust business.

Developing Living Trust Accounts

Our own experience regarding living trusts may be of interest, and I feel sure that it is the universal experience of others. We have a number of moderate size living trust accounts, and with one exception, every one of these living trust accounts has resulted in a testamentary trusteeship, or appointment as executor upon death of the trustor. In our community, the living trust agreement is gaining in favor and winning converts rapidly. I think this an ideal type of account, both from the standpoint of the bank and of the trustor. Professional men and widows who desire a regular monthly income from their investments and estates have been impressed with the appeal of the living trust account. Recently, a minister of our city, who had been a depositor of our bank for a number of years, was transferred to another city, and when he came to his safe deposit box to get out his securities to take with him, it was suggested to him that our trust department might be of service to him in the safekeeping and care of his securities under a living trust account, and in addition thereto, would pay him a fixed monthly income from the earnings of his securities. When he came to the trust department, he was pleased with the thought that he could secure such services for so small a cost and remarked that if he had known this years ago he would have established a living trust account and secured a fixed monthly income therefrom and saved himself from the worry incident to the investing of his funds, clipping of coupons and other details of management. A few days later, he brought us another account of a like nature, and later appointed us executor and trustee of his will. This is just another example of the great field for development of trust services within our individual banks.

Newspaper Advertising Must Be Followed-up

Perhaps our experience with newspaper and direct mail advertising is about the same as with other banks in similar cities; we spend considerable money advertising our services but the immediate results are not always visible. Recently, we had a letter from a gentleman in a small town about one hundred miles from our city, stating that he had been bedridden for several years and wanted information concerning investments, and also was considering making his will. Rather than attempt to answer this inquiry by letter, we went to his city and found that this gentleman had been paying particular attention to trust department advertising in several newspapers and finally decided that the type of our advertising impressed him most and made up his mind to write to us. After discussion of his affairs, he established a substantial living trust account and at the same time he called in his attorney and signed his will, naming our bank executor and trustee. We have had several other similar cases that came to our attention as the result of newspaper advertising, but I believe that the majority of people, while interested by such advertising, can rarely be moved to action through such means. The ideal plan, in my judgment, for development of trust service is to couple newspaper with direct by mail advertising, and by all means to follow this up with direct solicitation to see what interest is being created in fiduciary matters by means of this advertising, and finally to render the very best service to the estates and beneficiaries whom we serve.

Recommended by Attorneys

Some of our most valuable and profitable accounts, and the majority of this class were not then customers of our bank, have come to us through the recommendation of practicing attorneys of our city. Numerous contacts with many attorneys of our city have convinced me that they are glad to turn over the matters of investments and property management to trust companies, and a number of them told me that they prefer not to advise and give counsel to their clients about investments and property management matters, which might easily take a considerable portion of their time but for which they felt hesitant to charge the customary legal fee, thus conserving their time for the important matters of legal practice. We, and all the banks in Little Rock have cooperated with this fine spirit by consistently refusing to attempt to give legal advice or opinions and referring all matters discussed with us involving legal questions to the legal profession. The good will of the legal profession is a most valuable asset to the trust company, for the legal profession has an approach in many instances, to the most desirable trust business which might not be reached through any other contact.

Direct Solicitation of Trust Accounts

The direct solicitation of trust accounts and testamentary trusteeships is by no means an easy matter and requires adequate preparation and sympathetic and logical approach to the prospect's ideas. We have a prospect on our mailing list, who has been receiving trust literature for some months, and when approached recently, he frankly stated that as yet he had not been won over to the thought of a corporate fiduciary, that he thought its

(*Continued on page 23*)

Enlisting the Aid of Directors, Officers, Stockholders, Employees and Customers

By HERBERT FOX

Assistant Vice President, The American National Bank, Nashville, Tennessee

TRUST departments of important banking institutions are gradually enlisting the aid of their directors, officers, stockholders, employees and customers in developing their trust business. This is especially true with reference to wills, living trusts and life insurance trusts.

Naturally, the manner in which the aid of directors is enlisted is quite different from that applied to the bank employee, and getting trust business through stockholders is quite different than harnessing the influence of the officers in your bank.

Directors

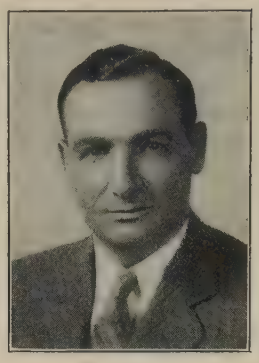
Let us look at these groups one at a time, first considering the bank director. In almost every banking institution a few of the directors have made their wills but a large number have usually not done so. The number of directors who have made living trust agreements and life insurance trusts is still smaller, yet these two services no doubt would often be of great value to them.

One of the greatest obstacles in securing trust business from directors, and this also applies to other prospects, is *procrastination*. It seems such an important step for them to take that the director feels that he must take more time and be sure he is covering every possible contingency.

To minimize this procrastination, we have called our directors together frequently and told them of the importance of securing trust business, and emphasized the fact that they would do us more harm in passing away without naming our bank executor and trustee than they had benefitted us during their lifetime.

We have also suggested that our directors file their wills with us so that we could advertise the fact that we ourselves had done what we were urging our prospects to do. Then, there is the kind of business which the director controls—his business associates and acquaintances.

Our institution has found it very valuable to give our directors one or not more than two names of their friends whom they know better than anyone else and ask them to secure their trust business. If you tell them simply to go out and get some trust business, they won't know which way to turn and if you give them ten or more names they will think they are being imposed upon, but by giving them one or two names *it is a specific job* and yet can not possibly be construed as a burden.



HERBERT FOX

was born in Granville, Tennessee, March 4, 1897. After graduating from Cumberland University in 1917, he served in the U. S. Air Corps during the World War until 1920, when he joined the force of the American National Bank of Nashville, Tenn. He is now Assistant Vice President and is responsible for the development of the bank's trust and commercial business.

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Officers

The most valuable of all sources of new trust business should be from the officers themselves. These men know many important and wealthy business men. The business man knows them and respects their opinions. We have insisted that each of our officers shall acquire a talking knowledge of the fundamentals of trust solicitation so that without embarrassment he can urge the people he comes in contact with to file their wills.

Very often an officer and director can cooperate to excellent advantage on a prospect known well to both. The prospect is usually flattered by such a joint call and the officer is able to line up additional talking points while the director is talking and *vice versa*. The combined knowledge of the two men are brought to bear upon the prospect and added together it is quite effective in speeding up the close of an important trust account.

Employees

We think a great deal of the ability of the contact employee to secure trust business. He usually knows

from one to five people who are logical prospects for the trust department and after he has given a talking knowledge of trust functions in a sales fashion, he can talk to his prospect and accomplish just one objective—get them into the bank to talk with one of your officers or experienced solicitors. It isn't necessary for him to have a technical knowledge of trust services in order to do this. In fact the asking of questions which he can not answer gives him an opportunity of saying that he isn't in the trust department and to suggest that he be allowed to arrange an appointment with one of the officers of the bank.

Stockholders

Theoretically speaking every stockholder should transact all his banking business with the institution in which he owns stock. Of course, this is not practical but it is a matter of fact that more than eighty per cent of them on an average do not have their wills filed with their banks.

Securing stockholders' business is almost entirely a matter of personal contact upon the part of the bank's officers and directors. Letters can be used to excellent advantage in preparing the way and building up the stockholder prospect for a call to be made by some representative of your bank.

In the final analysis, of course, someone has to do some personal selling, preferably, the officer who knows the stockholder well.

Customers

One of the most neglected fields for the developing of your bank's business lies in your customers. No matter how good you individually are you can not hope to produce as much as by having your bank's customers boost your game.

We have had some very fine results in cooperating with insurance men. It has been necessary for us to interview most of them personally, and while that takes time, we feel sure our efforts will be rewarded with additional trust business.

One word of caution—it has been our experience that when an insurance man gives you a prospect, you should follow through with him and not attempt to secure the business without his help. Make him feel that he has been of great assistance to you in securing the business of his friend.

Selling trust business is in many ways similar to selling any manufactured product. It is absolutely necessary to have a trust department adequately officered with men of proven experience and capacity. Directors, officers and stockholders who do not themselves use the trust department make it difficult to secure trust business from prospective customers. Salesmen must be used. Advertising must be employed to back up this selling. Personal solicitation properly carried out has already proven its value in our institution. As proof of this statement, by the end of this year through our solicitation efforts, we will have on file more wills than have been filed with us during the existence of our trust company, and our solicitation has not been in effect much more than one year.

I would like to offer three or four suggestions that, regardless of their simplicity, have proven very valuable to our solicitors:

1. Don't appear to be a salesman in soliciting trust business. In other words, a refusal to sell is an incentive to buy.
2. By all means don't be too technical.
3. Know the objections to trust solicitation so well that you can answer them any time, day or night. In other words, make them a part of you.
4. Get sold on the subject yourself before you undertake to pass it on to a friend of yours. Then, when you have completed a sale of trust service you have done a favor for your friend, benefited yourself and done a good day's work for your bank; all of which is my conception of modern selling.

Cooperation Between Bank's Officers and Trust Department

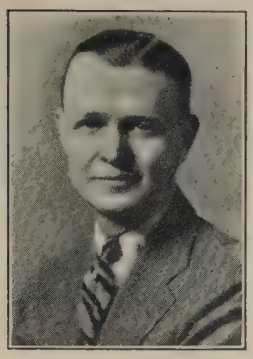
By PAUL S. STONESIFER

Trust Officer, First National Exchange Bank, Roanoke, Virginia

THE problem of adopting a plan to develop trust business must be solved by each bank or trust company as it is related to the surrounding conditions, such as: population, territory to be included in the field; state laws; individual wealth; character of the people, etc. Therefore, the starting point in discussing the methods of any bank should properly be a brief outline of the conditions surrounding it.

Our institution is located in a community which has a population of approximately 70,000, a large percentage of which are industrial workers. The history of our city dates from about 1884 and we have probably fewer individuals of wealth than are to be found in older communities. Ten years ago, when we began to seek trust business, the corporate fiduciary idea was practically unknown, in our section.

There are three topics into which a discussion of our methods may be divided: education, co-operation, and administration.



PAUL S. STONESIFER

was born in Roanoke, Virginia, on September 9, 1890. After receiving the A.B. degree in 1913 from Roanoke College and the M.A. degree in 1914 from Princeton University, he entered the general banking department of the National Exchange Bank of Roanoke, where, except for eighteen months in the United States Army, he has been continuously employed. In 1920, when the National Exchange Bank entered the trust field, he was elected Trust Officer, and in 1926 was elected Trust Officer of the consolidated First National Exchange Bank.

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Education and Cooperation

To carry the trust idea to our people, we adopted in our educational program, an advertising campaign, using at first two fundamental methods—newspaper, and direct-by-mail, supplemented later, when the idea began to take hold, with personal contact. Our newspaper space was frequently utilized for trust department advertisements and announcements. To a list of carefully selected individuals, we mailed regularly, folders, the first series of which was especially prepared with the idea of telling briefly: our advent into the trust field; the services rendered; how a financial organization is especially equipped for estate management; the nature and advantages of a trust; and why a bank or trust company should be chosen instead of an individual. All of our literature has been brief, legal terms and technical language being omitted, as far as possible.

Response to this advertising was not immediate, but inquiries began to increase in number, which enabled us to compile a list of names of "those interested" with whom we established personal contacts. We have found that most people are interested in the subject of wills and the disposition of property, although, they are very often reticent about discussing the matter. We have, therefore, kept "everlastingly at it" because it has sometimes required years of solicitation, either by mail or by person, before there has been a ripple of response.

In our direct-by-mail campaigns, we have received more inquiries where reference has been made to a booklet on the subject of Wills, for which a self-addressed request card is mailed to the prospect.

The good-will of a financial institution is built upon the personality of its officers and through them is established the confidence of the public. In a community the size of ours, the element of friendship between the officers and the public, through the years of personal or business relationships, furnishes the necessary contact for the opening of a discussion on the subject of wills and estates, and a large part of our business can be attributed to such co-operation between our officers and the trust department. It is very important, therefore, in adopting a plan for developing trust business, to create within the institution, a spirit of co-operation among all of the "bank's family" who are continually in touch with prospects.

We have consistently sought to establish friendly relations with the attorneys in our community and through them a considerable amount of trust business has been received.

Administration

It is important to bear in mind that the administration end of the trust department has a large part to play in the development of its future business, and the department is worth no more to the institution than its ability to handle estates. We began with the idea that it would be necessary to demonstrate our ability to handle the estates entrusted to our care, in order to make the beneficiaries thereof "satisfied customers." It is essential that happy relations be established with the beneficiaries of the estates in the process of administration by taking a personal and sympathetic interest in their affairs. Very often, however, we are called upon to devote attention to details not strictly in the line of duty, but we feel it is an important step in the building of good-will. This probably applies to a community the size of ours rather than to larger cities. It is with much gratification that the distributees and legatees of the estates we have handled, have in the majority of cases, made wills naming our bank executor.

For the new trust department, I can conceive of no greater error than that of devoting most of its time to the seeking of new business and thus neglecting the estates in the process of administration. Therefore, in our eagerness to obtain trust business, let us not neglect the development of the administration end.

SELLING TRUST SERVICE

By M. B. Slaughter

Trust Officer, Holston Trust Co., Knoxville, Tenn.

An understanding of human nature is the chief requisite for a successful trust solicitor. It is quite an art to handle a man in such a way as to win his respect, his confidence and his friendship. The most efficient approach is from the man's own viewpoint—from some point of pride through which his interest may be gained. The handles of pride and vanity, self-interest and self-respect attach to all men. If any man, either genius or bum, is to be moved, he must be seized by one of these handles. To do this is not flattery—it is good breeding, tact, courtesy.

Many a solicitor has talked his own chances to death, while, figuratively speaking, he tried to back the hearse up to the prospect's door. A trust solicitor should listen first and talk afterwards.

AS Americans, we are much given to thinking of ourselves not only as master salesmen, but as the last word in go-getters. I sometimes wonder if we are really gifted with native salesmanship to the same degree that we are blessed with energy.

Certainly we took no foreign markets until the Great War, and in this it was not so much a matter of masterly salesmanship, but rather a case of being the only nation able to supply the needs of a distracted world. I have read of many instances where our energy under the guise of salesmanship only resulted in giving grave offense. This was especially true as regards the Far East and our Latin neighbors to the South, and with whom tact and courtesy are indeed fine arts.

Misapplied Energy

I was very much impressed with a recent article entitled, "Give Us Sanity and Less Inspiration," and in which the author tells of a super-insistent young man who called on the mythical but great Mr. Octagon at his home one evening, in the effort to obtain a job. This man's insistence and lack of tact so irritated Mr. Octagon that after finally getting rid of the pest, he made the following comments which will no doubt prove interesting to many of us, in that they express a viewpoint held by most men of means.

"That's the product of all our business fiction," he said. "We've taught our young fellows, through success stories and inspirational articles, never to take 'No' for an answer. We've convinced them that the man who gets there is the man who hurdles obstacles and climbs porches to gain a first-hand audience with the big-man-at-the-top."

"As a result, we've produced a breed of ill-mannered brats who have the crust of traffic cops and the assurance of head waiters. The only merit they know is aggressiveness. But reserve and caution, diplomacy and common sense,—all these virtues are ignored."

"I'm tired of these boys who grab the bit in their teeth and fling themselves at you," he concluded. "I'll trade two go-getters any time for one cripple with deference and manners and some respect for the intelligence of his elders."

The man in this story no doubt thought that such a display of energy would greatly impress Mr. Octagon, but what he didn't know was that energy misapplied is like a short circuited electric wire. He was in fact not unlike the old peg-legged sailor, who one night while well loaded got his wooden leg stuck in a knot hole. He walked around that knot hole all night, spent much energy, but got nowhere. Many solicitors are like these men. They have never discovered the enormous difference between talking *at* a man and talking *with* him. Energy is only of

M. B. SLAUGHTER

was born in Lynchburg, Virginia, Feb. 13, 1894. After graduating from a military preparatory school, he entered the trust field in 1912 as messenger. He was successively Clerk, Bookkeeper, Teller, Assistant Treasurer and Trust Officer, for the Banking Trust & Mortgage Co., Petersburg, Va. During 1924-26, he was Vice President, reorganizing a south-west Virginia bank. He has been Trust Officer of the Holston Trust Company, Knoxville, Tenn., since 1926.

He designed the accounting system for the Personal Trust, Mortgage Loan and Bond Departments and trained the personnel of the Holston Trust Co. He has trained a number of men for trust department work in other banks and has written numerous pamphlets on various trust services.

As a trust solicitor, he closed 110 wills and trusts, sold over $200,000 of bonds, and obtained new deposits in excess of $180,000 during 1929.

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value when applied with tact, and with an intelligent appreciation of human nature. When this is done it will not often fail.

Proper Application of Commonplace Truths

Now it so happens that selling trust service requires qualities both commonplace and subtle. Some of the commonplace qualities are so utterly obvious that many of us overlook them. It is these axioms, these half-forgotten and self-evident truths that I want to impress upon you, for more business can be obtained through their proper application than is possible from sheer energy and hustle.

The real trust solicitor, to attain the pinnacle of the art of salesmanship must have great qualities of mind as well as great qualities of disposition. He must be alert, receptive and masterful. It is the solicitor who meets the great outside. He is not one of an army. He is alone. The bank advances or retreats according to his efforts. He deals largely with strangers, not with friends. He deals with classes and not with masses. He represents not merely his officers but the entire bank, and the public will judge the bank according to his conduct.

When you stop to think of it, it is quite an art to handle a man in such a way as to win his respect, his confidence and his friendship. A living man is the most complex mechanism in the world. Compared to him a locomotive is a play toy. The least blunder may cause him to work badly or even to break down; yet there are no printed instructions attached to him. All we can do is to watch his eyes and his mouth, and do our best.

If you have ever seen a fleet of tugs helping a great trans-Atlantic liner to her dock, you will know how a man ought to be handled. The tugs do not meet the ship head on. They do not collide. If they did they would be crushed like light globes. NO.—They trot up deferentially, moving in the same direction as the great ship. They push against her bow, gently at first and then harder, and harder, until they are using every pound of force they possess. But there is never a jolt or jar, and the little tugs are plainly helping the big ship do what she wants to do. There you have an illustration of salesmanship at its finest.

The Most Efficient Approach

The most efficient approach is to come to a man from his own viewpoint. If you can do this, you will be welcome no matter what you have to sell. For example: If your prospect be the president of a university, come to him from his side of the fence not from yours. Talk about the most recent endowment, or his latest book. The same applies to the manufacturer or the president of a railroad. Base your approach on the best item in his last annual report. On that item he has a reservoir of talk and an unlimited supply of courtesy. In the case of a financier, the key to his good will is some especially favorable fact concerning a property upon which he has just loaned a large sum of money. The point is, every man has some point of pride through which his interest may be gained.

This plan holds good with the smallest and the greatest men. I have met few men who were not concerned about their own success. Almost without exception there is an altar to pride and vanity at every wealthy man's desk.

So much hokum has been written about unselfishness and modesty that many of us have become confused in dealing with our fellow man. The truth is, that very few men have ever accomplished any great work without being more or less self-centered. His creed must be, faith in himself. It is cheap and silly to sneer and say he is an egotist. Certainly he is an egotist. He is more than that. For if he is anywhere in the front row you may be sure that he believes in

himself. You may be certain that he is in some degree an egotist, and not without reason.

The Handles Found on All Men

Pride and vanity, self-interest and self-respect. These are the handles that you will find on all men. Some men have only one, others have more. But if you want to move any man, either genius or bum, you must seize him by one of these handles.

In approaching your prospect never make the mistake of drawing a comparison between him and a person of less importance. Never use phrases foreign to the layman. To do this is fatal. Use the simplest explanations instead of legal terms. If he supplies the proper legal term, appear apologetic, say to him that so few men are acquainted with those terms that you almost always have to deal with the most elementary expressions. In this way you pay him a subtle compliment and benefit by his increased interest. If he does not understand legal terms, he will appreciate your not making use of them. Remember, no really important man cares to admit ignorance in any discussion.

Wherever possible you should talk in pictures as much as you can. Use homely illustrations. Give examples. For instance, when C. W. Hunt set out to sell his coal loader, he had just one argument and it invariably made a sale. His loader moved the coal in pockets instead of dragging it along a trough in the usual way. So Mr. Hunt would say to a mine owner, "You see it is like this; if you wanted to move a cat across the street, would you drag it by the tail, while it clawed and scratched you and the roadway, or would you put it in a basket and gently carry it across?" This was not really an argument. It was not even logical. Coal and cats are too entirely different propositions. But it was a picture, and as such it at once appealed to the customer's mind.

As Herbert Casson, that past master of salesmanship, wrote 20 years ago: The most important and interesting word to any man, in any language, is his own name. No matter how commonplace he may be, he has at least that one distinguishing mark. Better not go near a man than to meet him and mispronounce his name.

A Proper Deference and Respect

If you cannot discover any distinguishing mark about the man himself, talk his location. Talk about his building. If it is well kept, tell him so. Say something that will please him, and make him respect your judgment. No one likes to do business with a stranger. If you show that you know nothing, and care less about him, certainly he will care nothing for you or your bank.

Talk *him*. That's the main thing. Before you venture to worry a man about your bank or trust company, you owe him the honor of having first thought about *him* and what he is doing. To do this is not flattery, as so many solicitors foolishly believe. It is rather good breeding. It is tact. It is courtesy. It is showing a proper deference and respect for the personality of your client.

As far as possible you should listen first and talk afterwards. It is always better for him to talk to you than for you to talk to him. Many a solicitor has talked his own chances to death, while figuratively speaking he tried to back the hearse up to the prospect's door. No matter how interesting you are, or how much dynamic personality you think you have, you cannot possibly be as interesting to a man as his own voice is. This is an axiom of human nature which most of us forget.

As Herbert Spencer said in one of his last articles, the brain is mostly *feeling*. The faculty of *reason* is very small in the best of us. *Reason* is Nature's youngest and most delicate child. It was last to come and may be first to go. But *feeling* on the contrary is as old as the human race and older. There will always be *feeling* as long as there is life, and one of the first steps in an interview is to create a favorable *feeling* towards your company and yourself.

Cater to Prospect's Mood

From first to last it is the duty of the solicitor to cater to his prospect's mood—to his beliefs and his feelings. No matter how wrong-heeded and whimsical he may be, the time to correct him is after you have made the sale, not before. I may even go further and say—don't argue or contradict. There is an old fallacy floating around to the effect that a solicitor's mouth must be full of arguments. It must not. There is not any very keen demand for controversy in our work.

Unfortunately, we cannot recreate our prospects. We must take them as they are, bundles of fallacies and contradictions. That is the supreme honor of salesmanship, gentlemen, in that it deals with the most difficult of all raw material.

From the raw state to the finished product, with time as the principal element, that is the problem. If it takes you a month to close a will or trust, either of two conditions generally exist. You don't know your business, or your man was not a logical prospect. To overcome this—study yourself, and study your prospect. Pick the best handle on your man, be it *pride* or *vanity, self-interest* or *self-respect*. But first ascertain your own limitations. Don't imagine that because he is reputed to be rich, he is a good prospect. Not every man of means needs a trust company, and you had best find that out first.

Let me give you a case. Recently I called on a man of considerable means whose three sons were in their

own right men of prominence. I knew he didn't need a trust company, and would resent the suggestion, so instead of trying to obtain his will, I talked about his sons, and how the trust company could help men who were not so fortunately situated as he. In this I was reaching for two, if not three of his handles. Before I left he not only suggested the names of several of his friends who did need our services, but called up one of them and told him he was sending me over to discuss a matter which he felt would be of interest. By catering to this man's feeling I earned his respect and his confidence.

Adaptability Without Servility

The problem of the trust solicitor is how to be adaptable without being servile. How to have the strong hand in the soft pliable glove. How to guide your man where you want him to go, while all the time he thinks he is doing it for himself. To do this you must learn to harmonize with your prospect as successfully as gray harmonizes with blue, or as golden does with purple. In brief, you must be men of *finesse* without deception, and *diplomacy* without insincerity.

The fact is, that today a trust company demands solicitors of the highest type. The wise president knows that human nature has moved up and his solicitors to be effective, must move up with it. *Human nature*—that is the main factor in the entire problem. The solicitor of tomorrow will study human nature as Ziegfeld studies every detail of scenic effect, as those scientists in General Electric's House of Magic study electricity. He will study human faces until he can read the headlines of character that are written there. He will keep in touch with children for the reason that many a man has the brain of a child. In this way, he will keep fresh and avoid the canned lingo that is so universal. He will know that he and his prospect must be natural friends—like the eye and foot, or the finger and the brain. However, don't allow yourself to become purely an analyst, for the analyst will unconsciously lose the common touch. Any attempt to develop a standard plan of approach will only lead to stagnation. My whole thought is to give you a proper appreciation of human nature, and human nature is much the same the world over.

And now, last but not least, don't be afraid to tell a man what your fees are. Remember you are selling a commodity in the form of future service, and very few business men care to buy anything without knowing what the cost is to be. Above all, don't cut your established fee. It will only cheapen you, your company and the service you seek to offer.

Other Departments Most Profitable Source of New Business

(*Continued from page* 16)

services might be impersonal and that he was not convinced that a corporate fiduciary would take as much interest in the affairs of his family, after his passing, as would some relative or close personal friend. After discussing the subject from an administrative standpoint and from actual experiences which we both knew, we received the assurance that our trust company would be his selection in event he changed his mind. Since that time, this prospect has voluntarily discussed the matter further with us and is about to close this important matter in our favor.

Another typical experience is that of a very busy man with large enterprises who felt that he should go over his entire estate and map out a new will. Each time any mention of this matter was made to him, he would put us off with the statement that he was interested but did not have time then, but to mention it later on. One day when in the bank, he voluntarily made an appointment and spent the greater part of the next day with a close business associate and our representative in working out a plan which was then drafted by his attorney and promptly executed. I believe, therefore, that direct solicitation of trust business is most valuable, for it affords an opportunity to explain any misunderstood details of trust services. In our community, one of the most frequently asked questions concerns the safeguards of management thrown around trust estates, and a large number of the prospects interviewed have the mistaken idea that the funds and assets of the estates are mingled with the bank's funds, and might thus be subjected to any claims against the bank individually or subject to any other hazards of commercial banking. An explanation of the management of trust estates and the investment policy of trust funds and the knowledge that the assets of each individual trust account are kept separate and apart, has removed many of the objections made to us by trust prospects.

Contacts With Life Underwriters

There is another most important avenue for securing trust business which has been profitable to us, and that is contacts with the life insurance underwriters. Not only has this contact with its accompanying good will been of great importance in the establishment

(*Continued on page* 47)

The Possibilities for Trust Business IN THE SOUTH

By Reuben A. Lewis, Jr.

Second Vice-President, Continental Illinois Bank & Trust Company, Chicago, Ill.

The market for trust business in the South is shown by its rapidly growing wealth, by the steadily increasing number of security owners, and by the enlarging amount of new life insurance being written each year. The fact that nearly $250,000,000 passes by death each year in the eleven southern States is a further evidence of undeveloped trust business.

While figures compiled by the Comptroller of the Currency show that the average earnings of trust departments of national banks have increased steadily over the five year period, 1925-1929, the figures also reveal the fact that small institutions cannot expect to make a profit from a new trust department within a similar period.

In response to a recent inquiry addressed to thirty-five national banks with trust departments in medium-sized towns in the South, two-thirds of the banks reported successful results, while one-third questioned the wisdom of having opened a trust department and expressed doubt as to the returns.

A national survey conducted by the Trust Company Division, A. B. A., showed a 91 per cent increase in the number of life insurance trusts established in the Southern States in 1929 over 1928, and a 42 per cent increase in appointments as executor and trustee.

IN considering the possibilities of the trust business in the southern States it is natural that we should first wish to survey the market for trust service.

By its very nature, the trust business is dependent upon accumulated wealth for its existence, and it logically follows that the revenue a bank or trust company may expect to receive for its services in conserving and managing property hinges upon the volume that is obtained.

South Now Coming Into Its Own

Happily the South is coming into its own in the general financial sense. The strides that have been made during the present century toward its development are most impressive, although it is readily admitted that the Southern States do not have the concentration of wealth to be found in New York, Pennsylvania, Illinois, and in the long-settled States. The per capita wealth of the Southern States is not more than two-thirds of the national average.

There are eleven southern States represented at this conference. The latest estimate available reveals that their aggregate wealth runs in excess of $40,000,000,000. Included in this staggering sum is some property that does not pass through inheritance, but the greater part inevitably will. There must be someone to see that this property is passed on to the rightful beneficiaries. The growing tendency of American men of means to appoint a bank or a trust company to see that their wishes are carried out is being observed in the South.

The estimated wealth of Alabama at the opening of 1929 was $3,404,000,000. The figures for the other states were:

Arkansas	$2,866,000,000
Florida	2,887,000,000
Georgia	4,421,000,000
Kentucky	3,979,000,000
Louisiana	3,847,000,000
Mississippi	2,464,000,000
North Carolina	5,396,000,000
South Carolina	2,749,000,000
Tennessee	4,930,000,000
Virginia	5,637,000,000

REUBEN A. LEWIS, Jr.

was born in Birmingham, Alabama, August 29, 1895. He graduated from Washington and Lee University with an A.B. degree in 1916, after which he worked on the following southern newspapers: Birmingham Age; Herald; Birmingham News; Atlanta Georgian. During the war, he served as a First Lieutenant in the Field Artillery, being Assistant Adjutant of the 20th F. A. Brigade. After the war, he re-entered newspaper work in New York and later served for two years as Washington correspondent for the New York Journal of Commerce. In 1923 he joined the American Bankers Association as Associate Editor of the A. B. A. Journal. In February, 1928, he was appointed Secretary of the Trust Company Division, A. B. A., and in February, 1930, resigned that position to become Second Vice President of the Continental Illinois Bank & Trust Company of Chicago.

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Forty-two billion dollars in wealth affords a commanding market to serve; but the prospect is all the more alluring when we reflect upon the fact that the wealth of these eleven states was only $19,200,000,000 in 1912 and $37,100,000,000 in 1923. When the government completes its next census, it doubtless will report a further gain. It is cheering to note that the potential market is showing a steady and constant enlargement. The southern trust men may have the satisfaction of realizing that there is no danger of exhausting the field. The market is big, and growing larger.

The character and the creation of wealth in this country are undergoing a change. And this change is tending to make more necessary the services of trained trust departments. While land constitutes the basis for a large part of the wealth of the Southern States, the percentage represented by real property is growing less. This is to be expected with the industrial and commercial development of the United States. With the "peopleization of industry" and as millions of Americans become fractional owners of our great corporations, or the holders of minute participations in their obligations, there is a more persistent need for an organization that has an expert knowledge of all phases of stocks and bonds, and special skill in the investment of funds. With the growing complexity of our economic life—and surely no one will question the tendency—the ability of the individual executor to live up to all requirements is being put to a severe test.

The legion of security holders in the Southern States is steadily increasing. Indeed, a country banker was prompted to observe recently that he never knew that millionaires were so numerous in his town until the stock market crash. Then he learned by heart stirring confessions how many had lost a million. However, it has not taken a financial catastrophe to impress upon the Southern trust men the fact that an increasing portion of the estates of the future will consist of securities. In view of the limited equipment of the individual to cope with the problems created, this clearly means there will be a growing demand for the services of those who have an expert knowledge of stocks and bonds and their handling. The larger the estate, the more likely it is that the greater portion will be composed of intangibles. An analysis of more than 8,000 returns of estates running from $50,000 and upward revealed that real estate constituted only 17 per cent of the total gross value of these large estates, while bonds and stocks made up more than 57 per cent of the whole. This change enhances the possibilities of trust service along the lines of living trusts, custody and safekeeping.

Ten Billions in Life Insurance

Another tendency that is making for more trust business is the creation of estates through life insurance, and the growing desire to make sure that insurance does the job it was intended to do—provide a continuing protection.

The lives of the residents of the eleven Southern States are insured for more than $10,000,000,000 and this protection is increasing at the rate of approximately $1,500,000,000 annually. According to the Insurance Year Book, there was in force in ordinary insurance at the beginning of 1929, the following amounts of life insurance:

Alabama	$724,000,000
Arkansas	523,000,000
Florida	566,000,000
Georgia	908,000,000
Kentucky	822,000,000
Louisiana	680,000,000
Mississippi	442,000,000
North Carolina	987,000,000
South Carolina	475,000,000
Tennessee	952,000,000
Virginia	891,000,000

But even more impressive than the total coverage, is the amount of new insurance that is being written each year. During 1928, estates of $1,356,000,000 were created in these Southern States by the strokes of pens along the dotted lines of insurance policies. Tennessee took the lead with $175,000,000, while the new business in other states ran: Alabama, $131,000,000; Arkansas, $110,000,000; Florida, $110,000,000; Georgia, $148,000,000; Kentucky, $130,000,000; Louisiana, $110,000,000; Mississippi, $74,000,000; North Carolina, $151,000,000; South Carolina, $80,000,000; and Virginia, $132,000,000.

If we add to the life insurance in force at the beginning of 1929, the amount that was written that year, we can see that there is more than $10,000,000,000 of life insurance that might be brought within the protection of trust agreements. And, fortunately, the existence of this great amount of life insurance admittedly provides southern trust officers with the best indirect approach they have to the obtaining of new trust business.

As the handling of larger estates brings in more substantial fees, it is natural that these should be most sought. It has been estimated that more than $5,000,000,000 in property is passed on each year through inheritance and, of this amount, estates running $50,000 and upward account for more than half of the total value. The records of the Treasury Department reveal that nearly $250,000,000 in these large estates is inherited each year in the eleven southern States, which certainly supports the finding that desirable and undeveloped trust business covers Dixie like the dew.

The Possibilities of Service

From the standpoint of the possibilities of service, there can be no question as to the need or the worthiness of the responsibility to be assumed. It seems to me that a bank is under the obligation to furnish the people of its community with trust service as this can be better performed by it than by any other agency. In supplying this highly useful service, the bank adds to its logical functions, develops business for its other departments, insures the retention of its present business over generations, and generally increases its earning power. But there is this definite reservation: it is of no credit to a bank to open a trust department merely for the name of it. Poor and indifferent trust service will do the institution as a whole far more harm than good.

The profit possibilities of the trust business are naturally of immediate interest to the executives of banks in the southern States. The trust idea already has taken hold in the larger cities, but frankly, I do not know of a single institution that believes it has realized its full possibilities in the development of the trust business. One institution has made from year to year between 2½ and 5 per cent on its capital stock. Another leading southern trust company has produced around one-fifth of the total earnings of the whole bank. It should be emphasized that these two trust departments have been established for a good many years and are among the recognized leaders.

But, nevertheless, the start has been made as is indicated by the latest survey of active trust departments in the southern States. There are 137 cities in the South that have a population of 10,000 or more. There are 424 active trust departments in the territory, of which only 114 have officers and employees devoting their full time to the trust business. While there is no reason why any of the large southern cities should not be able to support at least two vigorous trust departments. It is quite apparent that there is not sufficient business in the smaller towns to justify all of the banks attempting to act in a fiduciary capacity. If all try to do a trust business, it is probable that none will have enough to be justified in setting up the right kind of personnel and equipment to hold the esteem of the community by efficient service. There is a real danger of small banks undertaking trust business without proper consideration of the probable returns.

Earnings of Trust Departments in National Banks

For the first time, it is possible to present actual earning figures of trust departments in banks of five different sizes, as classified by their capital. Through the courtesy of the Comptroller of Currency, the Trust Company Division recently was supplied with figures, showing the gross earnings of trust departments in national banks over a period of five years. Thus it is possible for us to know not only what the gross income is annually, but the percentage of increase from year to year.

The figures cover the five year period from 1925 to 1929. Thus they may fairly be considered as reflecting the actual gross earnings of trust departments during the formative period. The first group includes banks with capital over $25,000 and up to $50,000; the second embraces those with capital over $50,000 and up to $100,000; the third over $100,000 and up to $200,000; and the fourth banks having a capital of from $200,000 to $500,000. The fifth class embraces banks having a capitalization of over a half million dollars.

The earnings represent those of the average trust department in the respective classes. It is admitted that the figures would be more significant if it were possible to know whether these trust departments had made a special effort to develop their trust business and had employed the services of a full time trust officer, or whether they had just accepted what business came to them in the ordinary course of events.

Patently, trust profits bear a direct relation to the intensity of the new business effort and, while this investment in time and expense may not be reflected in the commissions during the pioneering period, it is being demonstrated that banks may cash in later.

A remarkable growth in average gross earnings and in the percentage gain of one year over the other is shown by the figures reported:

	Class 1. Banks with capital over $25,000 to $50,000	Class 2. Banks with capital over $50,000 to $100,000	Class 3. Banks with capital over $100,000 to $200,000	Class 4. Banks with capital over $200,000 to $500,000	Class 5. Banks with capital over $500,000
1925	$142	$ 417	$ 869	$2,541	$13,910
1926	249	467	1,244	4,243	19,761
1927	660	716	1,837	4,386	29,004
1928	548	1,138	2,940	6,035	43,187
1929	445	1,158	2,182	7,252	51,339

It should be remembered that these figures represent total fees and commissions only and should not be regarded as net profits. The expense of operating the trust department has not been deducted from the gross income.

These figures reveal two noteworthy facts: First, there has been a steady increase in the earnings of the sizable banks each year. Second, the gross earnings in 1929—in each of the five groups—were from twice to three times as large as these were just five years previously. Provided there is a real field to operate in, there is a steadiness about the trust business and a cumulative growth in earnings that makes it exceedingly attractive to the bank executive and enables him to shape plans with this characteristic in mind. Furthermore, with an increasing volume of business, it is possible to obtain a favorable operating ratio. With a seasoned trust department, out of every dollar received in commissions, at least 40 cents should represent net profit.

Should the Small Bank Enter the Trust Field?

A study of the actual income received by trust departments in small banks confirms the general impression that these institutions can hardly expect to receive any very substantial revenue from this source. The returns raise serious doubt as to the wisdom of a bank, having less than $100,000 in capital, undertaking to develop the trust business, unless there is some assurance that it will have the whole field to itself, and it is equipped with an official thoroughly well founded in the principles and practice of fiduciary banking who also has the ability to sell the service.

What is a satisfactory trust department? Perhaps the fairest test that can be applied to this question is simply this: Will the officers, directors and principal stockholders of the bank have sufficient faith in the trust officer and the trust department to entrust the settlement of their own estate to it. If the answer is in the affirmative, the management is justified in offering the service to its customers.

Perhaps there is no advice that is entitled to as much weight as that which grows out of actual experience. About two years ago, a fine old institution in an adjoining state decided to make an investigation to determine whether or not it should enter the trust field. It was located in a city of about 18,000 population, where it held the confidence of the community and the respect of the banking world. The President of the bank addressed letters seeking the advice of the governors of the three Federal Reserve banks in the Southern States, and asked thirty-five national banks in towns of comparable size, which had already entered the trust field, if, in the light of their experience they would advise his bank to set up a trust department. More than two-thirds of the banks expressed the opinion that it should have no hesitancy in undertaking trust service as they had found that this could be done at a modest additional expense without engaging the services of a full-time trust officer. One-third questioned the wisdom of the step and expressed doubt as to the adequacy of the return. While two or three of the responses indicated that some trouble had developed in the handling of the work, most of them stated that their experience had been quite satisfactory and they were impressed with the possibilities.

Fastest Growing Form of Financial Service

The trust idea has met with some encouragement in the South since these trust conferences were inaugurated.

In virtually every sizable city, we find trust departments have been established in the most representative institutions. If the earnings reported by the trust departments of national banks may be taken as a criterion of the income of both state and national banks, these are five times what they were in 1924. The Comptroller of Currency's office reports that the gross earnings of trust departments in national banks in the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee, advanced from $160,000 in 1924 to $293,000 in 1925, and $434,000 in 1926. During 1927 they passed the half-million dollar mark with a total of $591,000 and increased to $731,000 in 1928. During the past year, the trust departments produced $782,000. If the earnings of trust departments of Virginia national banks were included in the totals for the past year, the totals would exceed the million dollar mark.

While it is conceded that a great deal of educational work remains to be done, the events of the past two years have proved that the southerner will respond to advertising and personal solicitation. Trust service

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The Life Insurance Trust IN THE SOUTH

By Lee S. Trimble

Trust Officer, Orlando Bank & Trust Co., Orlando, Fla.

A considerable volume of insurance trusts is being created in certain southern localities, but such development is not general, as it should be.

Imperfect planning and understanding of the problem involved, Mr. Trimble points out, has resulted in the spending by banks in their advocacy of life insurance, of far more money than the results justify.

Realizing the importance of knowing the true attitude and reaction of insurance men toward the insurance trust idea, Mr. Trimble made a ten days' survey, during the course of which he interviewed managers and solicitors of all kinds, by the score.

Pertinent and revealing comments by fifteen insurance men are cited by Mr. Trimble. These stress, among other things, the need on the part of trust companies for strict impartiality; for a greater knowledge of and more active recommendation of insurance; for more active assistance and the supply of more information concerning trust service to agents; for joint solicitation, and aid in closing trusts; and for the establishment of a relation of absolute confidence with the insurance underwriter. One agent predicts that, under present conditions, the insurance trust will increase the production of life insurance about 65 per cent a year.

There is progress ahead because the idea is right, the time is right and the service is really needed, concludes Mr. Trimble, but the cooperation of the life underwriter can be won only through his own self interest and the heart warming contact of sincere personal concern.

THOSE of you here who are just entering trust work could hardly believe the statement that ten years ago it was difficult to find an article in print or to hear an address based upon or explanatory of the various phases of the administration of trusts. Very few books on the subject had been written and those in existence treated mainly of large trust company practices. Verily the operation of a trust business then was much like the game of blind man's buff.

Now-a-days, when every angle of the business is explained in detail over and over by books, articles and speeches; when new ideas and perfected plans are offered by experts to those who will but take them, the task of learning the business is much simplified.

While undertaking to prepare for a task like this it always seems that everything that could be said on the subject has been said at least twice. Especially does this seem true as regards the life insurance trust. No phase of our business has had the popular appeal or excited the interest that it has, and yet, when we face the problem of planning a difficult trust or that of rounding up the business we realize that there is yet much to learn.

Although the date of the first insurance trust was long ago it is only within the past decade that the idea has been worked actively except perhaps in a few localities. But when it broke it came with a rush.

Each Waited for the Other

The universal use of life insurance with the tremendous totals involved, and the liquidity of the funds made the plan most attractive to bankers, while the new angle of approach and the help of trust company advertising rendered it no less attractive to life insurance producers. Quite naturally any idea of such importance has been given front page position, relatively speaking, in both the banking and insurance press.

LEE S. TRIMBLE

was born in Alabama in 1888. He was reared on a Georgia farm; taught school; studied law and qualified to practice in Georgia and West Virginia. He entered banking in 1923 as organizer of and Trust Officer, Trust Department, Kanawha National Bank, Charleston, West Virginia. Since 1925, he has been Trust Officer, Orlando Bank & Trust Company, Orlando, Florida.

He is a graduate of the American Institute of Banking and organizer of the Orlando Chapter of the A. I. B. He is a past member of the National Public Educational Committee, Past President, Kanawha Advertising Club; Past Vice President and Director, Orlando Advertising Club; and Vice President for Florida, Trust Company Division, A. B. A.

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One live young state manager for an insurance company expressed it like this: "Both insurance men and bankers seemed to grasp the splendid possibilities of the life insurance trust all at once, and, together both proceeded to try to develop this great potential business, each side misunderstanding the other and misjudging the effort and procedure necessary to get the business in any volume for themselves.

" 'The insurance man,' he said, ever alert to find any way to overcome sales resistance, when he found that banks were endorsing life insurance as a preliminary to attracting insurance trusts, gleefully said to himself, 'Now, at last the banks are ready to help and with their support and endorsement I should produce much more business with much less effort.'

"The banker said to himself, 'Why, there is an army of life insurance solicitors combing the territory. They will be so grateful for the banks' support that they will bring us business in abundance.'

"Both sat back in anticipation and nothing much happened. Each was ready to capitalize on the effort of the other. That each had a share to contribute to secure the desired result was realized later, in some cases not yet."

Did he describe the situation well? What of the life insurance trust in the South?

Some one has said that "History is the story of the mistakes and blunders of the past." Whether that pessimistic view should be accepted, I feel that the best use to be made of the time allotted is not to glorify the meager results secured, but rather to analyze the results to date as developed by experience and study.

Importance of Getting the Right Start

There is now a considerable volume of insurance trusts being created in certain localities in the South, but such development is not general, as it should be.

A lot of money has been spent by the banks in advocating life insurance, far more, I submit, than the results justify. Fine for the insurance business, but, I dare say we would not find pleasure in a reckoning of the net average cost per thousand of trusts created in the South.

The cause may be laid to imperfect planning and understanding of the problem approached. The question of whether to go after a specific class of trust business is much like deciding the question of whether or not to establish a trust department. In both cases it is better not to start than to start wrong or start in ignorance of the way and the destination.

We may have gone on the theory that the insurance solicitor is glad to have our endorsement and our aid in advertising life insurance. The attitude and reaction of insurance men is of more than casual importance. What do they think of the life insurance trust, and how much support do they give our plans when they are away from our festive boards and out of sight and hearing?

This seemed to me to be worth knowing so last year I spent ten days trying to find out. Taking a city having adequate trust service and plenty of good insurance men; armed with letters of introduction, etc., I interviewed insurance men by the score—managers, solicitors of all kinds. I asked of them what they thought of life insurance trusts; what cooperation or lack of it they received from banks and trust companies; what future they saw for that phase of the business and other things. It was a most interesting experience and was worth while because to understand the producer is to be able to work with him, and to work with him is essential, for often he holds the key to the situation. He can and usually does see the prospect before we do, and often he can direct the matter as he chooses, regardless of how excellent our advertising or how strong our institutions.

Another important reason to study the insurance men of our territories is to know who among them is worth cultivating. Many of them know so little about trusts that it is fatal for one of these to try to handle a case. Rather than admit his ignorance, he will steer

the prospect into some plan he does know. Another sizeable percentage of agents got their training in another day; are so grounded in company and simpler forms of settlement that they are slow to accept trust settlements. You will find high ranking agents in this class, and their attitude is important to us.

There is also a smaller group that is frankly antagonistic, which may not be apparent but none the less real. Back of this attitude is usually found a grudge against some bank or banks or all banks, or just cussedness. Naturally they present a problem.

The remainder of the fraternity are open-minded, friendly and sometimes enthusiastic. It is from this class that most of the trust business comes, just as 80 per cent of all insurance is written by 15 per cent or less of agents in number. As to how these various classes should be handled is a matter of policy for each trust executive to decide once he understands his problem.

Pertinent Comments of Insurance Men

In that ten day survey which has been continued to the present through personal contacts and sets of questions mailed out to insurance men, many of the comments made are pertinent and interesting. I can do no better than to give you some of them.

1. A state agent states his willingness to cooperate with banks, but shows clearly that it is up to the banks to cultivate him. States that his company guarantees such a high rate of interest with liberal contracts, that trusts are rarely needed. Courteous and informed but not especially interested.

2. A specialist in insurance trusts, the only one yet met in the South,—giving full time to working insurance trust plan. Only fairly successful, not enthusiastic about degree of cooperation being received from banks and says as much.

3. A fine wholesome state manager believes in the plan. Has his own insurance trusteed. Believes every large bank should employ an insurance man and every large agency should have a trust man both to act as contacts to afford better service. Says insurance men in awe of banks, and bankers too busy and lack consideration.

4. State manager, live chap, stated his interest in the idea but after preliminaries were over, it soon developed that his notes had not been handled freely enough by his bank and his interest had been affected. The reason stated also suggested the remedy in his case.

5. Special agent specializing on big cases, good producer. Very bitter toward banks. Cited an instance where he referred a prospect to a trust department and within two days twelve other agents were after his prospect.

6. State agent, old timer, of high position in insurance. Regards insurance trust field for trust companies lies among insured and by direct effort. Agents not so concerned.

7. Live young producer in smaller city says, "The slow growth of insurance trusts in the South is caused by fair or ordinary grade of trust service rendered and number of bank failures. The way to enlist the active interest of life insurance men is to help them make some money out of it."

Have Not Given Sufficient Study

8. A home office official answers my set of questions with a letter quoted in part: "Our experience with life insurance trusts has not been extensive, although we have about a score of agents who have given this subject very extensive thought. We are from time to time writing good sized policies payable to trustees. Mostly, our agents are rendering all the service that is needed outside of that furnished by the trust company, but in some cases the home office is helping to draw trust provisions or at least make suggestions along that line.

"We find sympathetic cooperation from the banks and trust companies but with one or two outstanding exceptions we find that they have not given sufficient study to life insurance trusts to help our agents in any very marked way.

"As in most services regarding life insurance, I think the future of life insurance trusts depends upon the activity and intelligence of life insurance agents. They have to be well informed in order to present this feature to their clients. As our section of the country becomes wealthy and larger individual fortunes are built up, I can see that more and more use will be made of life insurance trusts, but I think the growth will be gradual.

"I think trust officers can advise their clients and can keep in touch with the up-to-date and intelligent agents in their territories. The life insurance agents, if on the lookout for business of this kind, can bring many of their clients to the trust company. Advertisement on the part of the trust companies will help, of course.

"In the first place the bank or trust company should keep out of the insurance business and act impartially when it comes down to a choice of life insurance companies. In other words, if the trust officer will keep in touch with the best agents in his territory, he can give them a great deal of information and assistance that will result in their bringing clients to his bank. They will shy off at once if they know the bank itself is in the life insurance business of if they know the trust officer is unduly favoring any one company."

9. A general agent answering the question, "What future do you see for this service under present conditions?," says,

"I believe that under present conditions, it will increase the production of life insurance about 65%

a year, if insurance representatives continue to cooperate with the banks.

"Since January 1, 1930, I have written additional new insurance policies of approximately $150,000, assigned to trust companies, and have changed the benefits under old insurance to trust companies, of about $200,000."

Be Impartial and Discreet

10. Another general agent replies to my question, "What can the trust companies do, in your opinion, to expedite development of this form of trusts in your territory?"

"(a) Be impartial in the handling of life insurance trusts, and discreet with their relations to life underwriters.

"(b) Through a larger volume, accept trusts of a smaller amount.

"(c) Be more familiar with life insurance and the needs for it, so that there need be no hesitation in recommending the proper amount necessary."

11. Still another general agent answers my question, "What can the trust companies do, in your opinion, to expedite development of this form of trust in your territory?" "Advertise, do joint solicitation with the life insurance agent. Make analysis of estates and show need for insurance where it exists."

12. A Southern insurance company official replies by letter as follows:

"Dear Mr. Trimble: Instead of answering your questionnaire, which I am returning herewith, I am writing to give you some idea of my experience with life insurance trusts placed with trust companies.

In the past ten years we have probably placed in this office something like five millions of insurance trusts of various forms with trust companies in our territory. I find in answer to your question No. 2 that all the trust companies are anxious to get business and if you get the prospect, write his insurance, sell him on the idea of a trust, and get his lawyer to fix up the agreement, the trust companies have wide open arms to receive the business. I know of not a single case that a trust company has actually helped any of our men or me personally to close. I know of numbers of cases that have been closed by the underwriter for the trust companies.

If some practical plan would be put into operation throughout the South similar to the plan used by the Equitable Trust Company and the National City Company of New York, I think the future of the trust business in the South would be considerable and on a much better basis than it is at present. Most of our trust companies are afraid to suggest to their clients to buy life insurance, and if they should go about it in a roundabout way then they are afraid to tell them to buy the insurance from an agent who has submitted the case to them. In other words, the trust officers appear too modest to handle the majority of the cases in a business-like manner."

Sees Unlimited Opportunities

13. Another general agent adds as "Remarks" to my questionnaire, "I consider the life insurance trust a great development that will materially benefit life insurance men more and more as time goes on. I can see unlimited opportunities for both trust company and life insurance men alike. I have my own life insurance made payable to a trust company as trustee and have made a will directing the distribution of my life insurance at my death. I do not believe there is any way possible for a man to better this arrangement in connection with his life insurance."

14. Another general agent replies, "About how many life insurance trusts have you created in which a trust company was named as trustee?

"This office alone has created in the local trust companies within the past twelve months about $7,000,000 of insurance and other estates in trust."

15. A sales promotion manager for a Southern Insurance company says, "In my experience, comparatively few trust companies in the South seem to be as fully awake to the possibility of life insurance trusts as are the companies in the North, although it is very evident that trust companies in the South are becoming extremely interested in the subject, and are trying to do something practical to stimulate that business.

"I have made a study of life insurance trusts and from my experience, it is an excellent way for a well informed underwriter to secure additional business. It is comparatively difficult for a life underwriter to carry a life insurance trust case through to completion without a lot of lost motion.

"The banks and trust companies of this city and section do a great deal of talking about insurance trusts, and endeavor to stimulate interest in them, but neither I nor any of my associates have received any unusual cooperation in putting them over.

Must Establish a Relationship of Absolute Confidence

"I do not see a very brilliant future for the trust business unless trust companies and agents can establish a relationship of absolute confidence. Frankly, the life insurance business is so highly competitive that an agent is almost afraid to take the average trust officer into his confidence. In many cases, trust officers have part time insurance contracts, or have personal friends to whom they will give business tips. The banks or trust companies should stay completely out of the life insurance business if they expect the cooperation from full time life insurance leaders.

"The banks can expedite development of life insurance trusts in this territory, or any other territory, by using direct mail and newspaper advertising to stimulate interest in the trust idea. Most of their advertising tells the public to consult the trust officer if

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Proposals for Modernized TRUST INVESTMENT AND TAX STATUTES

By C. W. Bailey

President, Southern Trust Company, Clarksville, Tenn.

The taxation laws of the southern States have been pronounced the greatest obstacle to the development of trust business.

So long as the general property or *ad valorem* tax prevails, wealth will be driven out and foreign capital kept from coming in. The big trust estates will be found in States where taxes are favorable. A higher tax on real estate and a moderate tax on personal property are suggested in place of the general property tax.

Florida, Virginia, Kentucky and Louisiana have made real progress in tax reform of a permanent nature, but the other six States are operating under obsolete tax statutes.

The banker and the trust officer should play an important part in any tax reform program: first, by aiding in determining which is the best system; second, in educating the public as to the need for its adoption.

Progress in trust investment statutes may be achieved by legislative action. Tax reform, however, involves changes in constitutional provisions and is considerably more difficult of accomplishment.

AT the First Southern Trust Conference at Chattanooga two years ago, I had the temerity to remark that it was not worth while to talk about trust business until we removed the greatest obstacle to its development. At the close of the Second Southern Trust Conference at Atlanta last year, I repeated that assertion, and I have come back today to make the same statement. I have come to talk to you about the cancer that is eating at the vitals of the trust business in the South, and until there is a major operation there cannot be that development of trust business to which the South is justly entitled.

Tax Laws Should Attract Capital

We talk about life insurance trusts and I will agree with you that the presentation by Mr. Trimble a few moments ago was truly remarkable in what it covered, but you and I know that there are many millions of life insurance ready to go into trust estates whenever the taxation laws will permit them to do so.

My idea is that a State's taxing laws are not complete when they merely hold that capital which belongs to that State, but they must go further and attract capital from without, as well.

My authority for what I say today is largely taken from correspondence with trust officers throughout the South. I have sometimes been surprised at men who would tell me they didn't feel the development of trust business was being affected one way or the other by the taxation laws of their States, when other men who have looked into the subject more thoroughly would tell me these were the greatest obstacle to the development of trust business.

Taxation is constitutional; investment statutes are largely legislative; it is of the first and larger subject that I want to talk to you.

At the Second Southern Trust Conference held at Atlanta in the spring of 1929, reference was casually made to the retarding effect of property taxes on the development of trust business in the Southern States. Very promptly a sympathetic interest was evidenced in the audience, resulting in the appointment of a committee composed of R. F. Maddox, of Atlanta,

CHAS. WM. BAILEY

was born in Clarksville, Tennessee, April 19, 1884. He was educated in the public schools of Clarksville. After working as a stenographer for the American Snuff Co. and later in clerical work with the Clarksville Ice & Coal Co., and local representative of Italian Tobacco Regie, he entered the First National Bank of Clarksville as Assistant Cashier in 1904. In 1908, he was appointed Cashier and in 1920 elected President of that Bank. He was one of the organizers of the Southern Trust Company in 1910; was its first Cashier and became its President in 1920. He is also President of the Investment Trust Corporation of Clarksville, Chairman of the Executive Council of the Tennessee Bankers Association, and a member of the Tennessee Tax Commission.

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J. H. Boushall, of Tampa, W. C. Bowman, Montgomery, R. F. Spruill, Rocky Mount, and C. W. Bailey, Clarksville, to report at the 1930 conference on a program looking to the revision of the present taxing laws and to suggest a more modern system of investment statutes. You will agree that the committee was given quite a task. It requires a courageous and venturesome spirit to engage in conflict with the amendment of the constitution of one State. To battle with ten would be the height of folly. More recently the Chairman of that committee was asked to speak here on the effect of taxation on the development of trust business in the South. So it seemed appropriate to combine the two.

Any statements of fact made today with reference to the laws of the various states are as accurate as could be developed by diligent correspondence. The members of the committee furnished most of that information. References to the effects of these laws on trust development are not a part of the committee's report, though the members would likely endorse the sentiments expressed. This explanation is made in justice to the members of the committee.

When the correspondence was begun there soon developed the utter impracticability of presenting to you a comprehensive digest of the taxing laws of all the southern States. Changes were being made here and there. Legislatures were meeting in special or regular session in one State and adjourning in another. Evidences of the struggle with the taxation problem were everywhere apparent.

Summary of Tax Systems of Ten Southern States

A brief summary of the systems of taxing intangibles, gathered since January 1st, is about as follows:

Florida has taken a long step forward in putting into the constitution a provision prohibiting both the income tax and the inheritance tax. A tax of five mills may be levied on intangibles, but it is not done.

Virginia has a five mills tax on intangibles with certain provisions which are designed to attract outside capital.

Kentucky has an intangible property tax but, unfortunately, there is no constitutional limitation on the rate.

Louisiana gives entire exemption from taxation to certain classes of intangibles which in practice seems to be effective as to all.

North Carolina has an income tax for state purposes and an ad valorem or general property tax assessed by other governing bodies.

South Carolina has a general property tax and an income tax.

Georgia has a general property tax.

Alabama has a general property tax with some relief given through a registration tax to stocks in foreign corporations.

Tennessee has a general property tax, much in the same form that it was adopted about 1830, with some temporary relief being given through an income tax adopted at the last legislature.

Mississippi has an income tax, an ad valorem tax on certain intangibles and exempts from taxation loans bearing six per cent or less.

Four of these southern States have made real progress in tax reform of a permanent nature. The other six are operating under old statutes or constitutional provisions which were adopted when intangible property played but little part in the economic life of the states.

General Property Tax a Bar to Development of Trust Business

So long as the general property or ad valorem tax prevails there can be no permanent and satisfactory volume of trust business developed. Legislative expedients, which are subject to modification or repeal at any subsequent legislature, bring only passing relief.

As an example, Tennessee has adopted a limited income tax, by the provisions of which the payment of the tax gives relief from any other State, county, or city property taxes on the property whose income is so taxed. It also relieves the owner of the possibility of being retroactively assessed for failure to report the property under the old law. But the next legislature may repeal the tax, thus bringing the ad valorem tax back into effect, with the State Department holding an interesting list of property owners who reported for income taxes.

Any tax reform which is intended to hold and attract intangible property must be so tied into the constitution that its magnetic features cannot be nullified by legislative act.

Bankers Can Aid in Tax Reform

It is very evident that bankers can render effective aid in the adoption of tax reform. When North Carolina voted a few months ago on a constitution amendment it was found, when the votes were counted, that the proposal carried in those sections where the bankers were active and failed in those where the bankers were indifferent. Unfortunately indifference prevailed.

As the tax on real estate has increased in those states having the ad valorem system, the same increases in assessment and rate have been applied to bank shares, until we find today that bank shares are paying taxes which are entirely out of proportion to those paid by other personal property, most of which remains untaxed. In those States having a classified property tax, or a similar system, bank shares are taxed at rates much nearer those applying to other personal property.

Enormous sums of personal property are escaping taxation entirely. A reasonable tax on this form of wealth will produce a handsome income for the State and will tend to reduce the tax on real estate which has become so burdensome. The increasing requirements of the States for revenue to meet increasing expenditures has resulted in the applications of many forms of taxes which are directed at capital. Relief can come only through constitutional provisions which are designed to be in keeping with conditions as they exist today, not fifty years ago.

There is yet another burdensome effect of the general property tax with which most of us are acquainted. Because an accumulation of funds in a trust organization attracts the attention of taxing authorities many estates are left in the care of individuals, especially widows, where the one estate is not so apt to be observed. To these the bank management renders much the same service, without compensation, that would be performed with compensation if the bank held the estate under its management. Perhaps it is good business for the bank to give this aid, good policy for the bank and great protection for the individual. But if taxing laws were favorable so the estate could be exposed, then the individual could be relieved of the responsibility, the estate would have better management and the compensation received would enable the bank to employ competent talent.

An Exodus of Personal Capital

From many of the southern States there has been a substantial exodus of personal capital to those States where taxing laws are favorable. Tennessee is a prominent offender in this respect, and we learn upon inquiry that much the same conditions exist in other states which have antiquated systems of taxation. Trust officers and bankers can entertain you with innumerable instances.

It is a well recognized fact in Tennessee that the amount of trust business held outside of the State for the benefit of Tennesseeans is much greater than that held in trust organizations within the State.

In those southern States which have modern taxing systems much property which sought tax relief elsewhere is now returning.

An interesting case which came to our observation recently was that of a wealthy man who for physical comfort resided in one State where the climate was favorable, who for mental comfort used the services of a trust organization in another State where the trust management was to his liking but the taxing laws were not and who for purposes of economy placed his investments under custody in another State where the taxing laws were in every way favorable. He seems to have found the lines of least resistance to the fullest degree.

Some rather interesting stories have been circulated recently about the influx of personal estates into one southern State where the constitution has been so amended that there cannot be any State income or inheritance tax for a period of years and where a limit of five mills may be assessed against intangibles, but no assessment is made. Another southern State with a five mills tax on intangibles is drawing trust estates in a substantial way from the surrounding States and the trust officers are unanimous in giving credit for much trust development to the operation of the taxing laws.

Trust Business Retarded by Obsolete Tax Laws

When a comparison is made between the volume of trust business held in corporate organizations in those States where the property taxing laws have been revised to meet modern conditions and those States where there has been no revision, there is only one conclusion that can be drawn, and it is that the development of trust business is being substantially retarded by these old laws and materially aided where a modern system prevails.

A certain amount of business will or must come to trust organizations in spite of unfavorable taxes. It must have protection at any cost, or it may be of such type that it can afford tax free investments. But the volume that goes to make up a business in keeping with the wealth and size of the State cannot and will not gravitate to corporate trust organizations where the taxing laws are unfavorable.

The South is an agricultural section. Consequently it is difficult to convince the land owner that his real estate should be taxed at a rate higher than his neighbor's personal wealth. Yet that is what must be done. That is what has been done elsewhere and it has been done in those southern States which have modernized their systems of taxation.

A Moderate Personal Property Tax Recommended

A moderate tax on personal property will serve to hold that capital which belongs within the borders of the State and it will attract more from the outside. A high tax will drive local capital out and keep foreign capital from coming in. Find the big trust estates and you have the answer as to what effect taxation has on trust development. These go where taxes are favorable. Personal property can be moved with ease from place to place. It has no fixed residence. It goes where it is treated best.

With tax reform in those southern States which are now operating under the old general property tax will come a much more rapid trust development, a development which is not possible under present conditions.

The banker and the trust official have an important part to play in any tax reform program. First, by aiding in determining what is the best system. Second, in educating the public as to the need for its adoption. In serving their own interests they will be performing a most useful service for the state and its citizens.

But what of the statutes governing the investment of trust funds? To answer makes the story too long. With tax reform there has come some progress in trust investment statutes. Not all that might be desired. This condition can be remedied by legislative action. Tax reform goes back to the constitution itself.

Not long ago, one Sunday afternoon, Dr. Cadman, to whom you have all listened over the radio, in referring to the late candidate for the presidency of the United States, said, "He made circumstances yield to his vigorous onslaught." I have quoted that often, and I quote it again, to the committee within this conference, for the consideration of this matter. I don't believe most of the States have any State corporate fiduciary association, and it strikes me that might be a feasible way to deal with the matter. It might be left within the conference, or dealt with in the organizations within the States.

DISCUSSION

Best Way to Attack Problem

CHAIRMAN MECHEM: Mr. Bailey, what is the best way for these gentlemen to attack this problem?

MR. BAILEY: I think the best way to stimulate interest in any State is through the State Bankers' Association. You who are here today and are interested, might profitably have a part of your next Bankers' Convention devoted to a discussion of the tax problem. We are trying to do that in Tennessee. We had a committee appointed for the purpose of naming within our State a committee of 15 men of prominence and prestige (not bankers) who were as far as possible removed from partisan politics. The objective of this Committee is to raise enough money to provide for intense study of the taxing laws of our State and the effect of those laws, and to recommend what seems to be the best taxing law for our State. We have not gotten far with it, having had great difficulty in getting 15 men to serve.

We have now a tax commission which was appointed somewhat politically, and they have started out to make an investigation. I was a member of the Tax Commission which met for the same purpose two years ago, and we met, reported, and the report was pigeon-holed, and that was the end of it. It is so hard to change the taxing laws. As far as I know, you have got to go back to the Constitution.

It is going to require a terrific educational campaign to carry an amendment through. We think it best to have the organization originating in the State Bankers' Association so that, when the time comes to submit it to the people of the State in the form of a comprehensive plan, we can have this channel to work with, and the members in their individual communities will make it possible for us to put it through. I would suggest that you go to your convention and get the taxing laws presented. You will find a whole lot of latent interest. It is surprising that there *is* a lot of interest in the problem, but nobody seems to want to do anything about it.

CHAIRMAN MECHEM: Mr. Zukoski, the Chair will be glad to do anything you want him to do. I have a feeling myself that this is an important matter that cannot be worked out in a little time. We have been working in Illinois on our antiquated tax laws. Some years ago our constitution was amended, and more modern taxing measures put into it, and the constitution we submitted to the people was defeated. I believe as Mr. Bailey points out, it can only be done by getting the influential men in your community and your profession behind this thing. It can not be done by a small effort or by a small group of men.

MR. ZUKOSKI: My suggestion did not comprehend that that would be the entire effort, but the beginning. In Alabama we do not have a corporate fiduciaries association; we thought of organizing one, and perhaps that would be the best beginning, but we have the tax problem before us now, and it has occurred to me that we might start by discussing the best methods of approach to it.

Must Not Be Afraid of Tax Problem

L. L. MOORE (President, Moultrie National Bank, Moultrie, Ga.): I want to endorse Mr. Bailey's recommendation that the question be looked into, and also Mr. Zukoski's suggestion. I want to suggest that if they have any information from each of the States concerning their laws and the amendments needed, that this information be referred to some committee or department that is concerned with the problem in that particular State.

In this discussion here you are handling this tax question very much like we over in Georgia handled it in the legislature. I happened to be a member of that legislature and we handled it as if we were afraid of it. It looks as if we were afraid that we might get a tax that might tax us and not tax the other fellow; the tax that is most popular is the tax that gets the other fellow and doesn't get us.

If you are ever going to solve the question you have got to get the facts. It is a subject we are all afraid of and we have got to grasp it and not be afraid of it. In the southern States we have taxed tangible property so that it is almost a burden to own. There are very divergent views on the tax question and we have to get down seriously to considering the problem. I say that from my limited experience as a banker and also from my limited experience as a legislator.

A Wide Difference of Opinion

CHAIRMAN MECHEM: You are quite right, Mr. Moore. I don't know of any subject unless it be the tariff that there is more difference of opinion than on tax matters. As I understand it, we are to consider here the question of *ad valorem* taxation on personal property, which makes it disadvantageous for a man to create a trust of his property, because the creation of the trust brings out into the open for taxation, property which in the creator's hands was previously not subject to, at least as full, taxation.

MR. MOORE: You are right. You have to take off the *ad valorem* tax; you have got to tax intangibles, and you can't raise the taxes on tangibles.

MR. BAILEY: We want to put into the constitution a provision for a reasonable tax on personal property that is not being paid now.

MR. MOORE: You want a classification tax?

MR. BAILEY: Or an income tax. If your state has an income tax and it is reasonable and has taken the *ad valorem* off, you have reason to be proud.

MR. MOORE: The trouble in Georgia is that folks who have large incomes do not think the tax is reasonable.

Best Method of Procedure

CHAIRMAN MECHEM: Well, Mr. Moore, as a banker, and as a legislator, what is the best way to go about this problem?

MR. MOORE: You have to get the information on each particular State and submit it to the men in charge of tax revision in the legislature, and then let them go ahead. I say they are afraid of it, and they are. The bankers ought not to hold off for fear of having their incomes taxed, because the legislators are going to do it anyway. To my surprise, the Georgia Supreme Court held that the Georgia income tax is valid; the only way in the world they got around it was to say that an income is not property. But I would like to see somebody steal some of it and not be prosecuted, and the only thing you can steal is property.

W. D. DAVIS (Vice-President and Trust Officer, Capital National Bank, Jackson, Miss.): It seems to me that for the present all we can do is for the trust men of each State to take up the matter with the various legislative committees of the State Bankers' Associations; they are very much interested in getting a fair taxation law for the banks. I appreciate the fact we would like to have it handled especially for the benefit of the trust men, but usually you will find there are some members on those committees who are trust men, and each trust man in each State might well confer with the legislative committee at some of their meetings, and get this matter started in that way. I am sure they would be friendly and interested in cooperating in a way that would be satisfactory to the trust departments of the banks in those States.

MR. BAILEY: Let me close this discussion by going back to my first discussion. Go find out where the money goes and see what the taxing laws are there;

then see if they can be applied to your own State, and see if they can be brought into effect, either through your Bankers' Association or wherever you can.

CHAIRMAN MECHEM: Any success along this line must be gained by the cooperation of a great many organizations, and a great many different elements in the community. In the majority of these southern States, Mr. Bailey assures me, there are large organizations that have been working on this problem for a long time. Anybody interested here can get in touch with these organizations and find out the progress and how far they have gone and what they can do to help.

Interest in Technical Side of Trust Business Growing

"THE continued and growing interest in the technical side of the trust business, which is evidenced by these Southern Conferences, is not only interesting, but important. The trust business is a business that has a great future; it is a business that has a particularly great future in the South; and there are two things that are necessary if we are going to achieve in the trust business, the future which is there before us.

"First of all, is the spreading of the trust company idea that in a great majority of cases the man's estate will be more efficiently, more economically managed by a corporate trustee than by any individual he is in position to name and secure. But more important than that, it is keeping that idea sold by performance, by carrying out in the management of these estates the things which we profess and advertise. This is not a local matter; the carrying out of these trusts is keeping trust service sold, as a national matter. If a big trust company in a far city, charges an exorbitant fee and antagonizes beneficiaries, or makes a bad investment as a result of which the trust suffers,—a harm has been done to trust service in general, and to each and every trust institution represented in this Conference.

"On the other hand, if some small trust company in a southern small town, or in any part of the United States, makes a bad investment—improperly administers a trust—it has done a harm not only locally but to the trust business all over the United States. After all, the thing we are trying to build up is not only the belief, but the evidence of the belief, that anybody, anywhere in the United States, can entrust his estate to a corporate fiduciary and receive for his beneficiaries an honest, efficient and economical administration of that trust. And that is why the continued and growing interest in these Conferences in the technical administration of trusts is of the greatest importance, beause it is in that interest that our future lies."

JOHN C. MECHEM,

Vice-President, First Trust & Savings Bank, Chicago, and President of the Trust Company Division, American Bankers Association.

(*Presiding Officer, Second Session, Third Southern Trust Conference.*)

The Organization and Activities OF A Corporate Fiduciary Association

By H. F. Pelham

Vice-President, Citizens & Southern National Bank, Atlanta, Ga., and President, Georgia Fiduciaries Association

The excellent reasons that exist for the formation of a corporate fiduciaries association and the way to get started in organizing one, are pointed out by Mr. Pelham, who has himself been one of the principal organizers of two State associations.

The number of trust sections and fiduciary associations has been increasing rapidly during the past few years. There are now 57 State, city and county groups reported. However, there are still 17 States that have no fiduciary organization of any kind, and there are many cities in which the trust men have not gotten together "to work out their common salvation."

"It seems beyond the realm of understanding," says Mr. Pelham, "that a group of trust men, whether in city or State, would permit themselves to drift along without a medium of contact for the discussion of their common problems; for the development of profitable understandings; for the discouraging of price selling of their wares; and for their advancement in a uniform manner in their profession."

After outlining the principal activities of existing organizations, Mr. Pelham urges the adoption of a forward-looking program for each association, "to give perspective to the subject of corporate fiduciary progress in the community.

"Trust service is a long-time one," he declares, "and the development of it in a uniform, organized manner will build securely and substantially and return dividends to all concerned, increasing as the years are traversed."

BEFORE another new association of any kind projects itself upon an unsuspecting universe, crowding the organizations of various sorts and kinds already fighting for retention of life and interest, there must be at least one good reason for its existence. A mere excuse is not a reason. Such is even more the case among banking organizations.

For the formation of a corporate fiduciary association, however, there do exist some most excellent reasons. Through such a grouping of interests so constructive and human in character—touching as they do the very heart-chord of family life—"the trust idea" may be more carefully developed in the community affected; those associated together may proceed with mutual and greater confidence; the users of trust plans may rest in the assurance that the latest accepted principles of estate and trust administration are being applied under modernized laws and by truly trust-minded officials; and assurance supplants surmise in the minds of those actually performing the services.

Getting Started

At the start of every movement some one person must say, "Come on!" That person may be the representative of some organized body or he may be a trust man from the ranks who senses the need in his vicinity for a better understanding among his confreres. In either case, there must be a leader.

Speaking with first-hand acquaintance of the organization of the Georgia Fiduciaries Association,

H. F. PELHAM

was born in Jackson, Michigan. He received the degrees of A.B., 1911, and LL.B., 1913, from the University of Michigan. After admission to the Michigan, Alabama and Georgia Bars, he practiced law in Birmingham, Alabama, 1913-15, and in Jackson, Michigan, 1916-17. During the war he served as officer of Artillery, leaving the service with the rank of Major. He was connected with the Detroit Trust Company 1920-23; was Trust Officer of the First National Bank at Flint, Michigan, 1924 to March 1, 1928. Since then he has been Vice-President in charge of Trust Development, The Citizens and Southern National Bank (having offices in Athens, Atlanta, Augusta, Dublin, LaGrange, Macon, Savannah, Valdosta, Georgia, and Charleston, South Carolina) with headquarters at Atlanta, Georgia.

He was first President of the Michigan Fiduciaries Association, 1927; organized and was first President, Georgia Fiduciaries Association, October, 1929. On Nov. 2, 1929, he was elected Chairman, Trust Development Committee, Financial Advertisers Association, and also a director of that Association.

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recent enough so that the steps are still in mind, the following seems to have been the procedure followed: An "Organization Committee" was selected and fostered by the Atlanta Clearing-House Association. This committee, aided also by the secretary of the Georgia Bankers Association, directed letters to the trust officers throughout the state, outlining in a general way the purposes of the proposed organization and seeking their opinions of the need for a state-wide association. As the responses were encouraging, a formal "Call" for an organization meeting on a given date was sent out by the sponsors. In the interim between the issuance of the "Call" and the date of the meeting, the "Committee" extracted from the constitutions and by-laws of various states and city organizations of some years experience, the principles and rules which it was thought might be most workable and valuable to the trust fraternity of Georgia. Copies of these, tentatively drawn together, were supplied to the prospective attendants, so that the benefit of preliminary thought might be given these principles and rules before they were taken up for discussion at the first meeting.

The Organization Meeting

In calling the organization meeting to order, the president of the Atlanta Clearing-House Association stated the purposes of the meeting and the preliminary work of the "Committee," which was then authorized to continue. The usual preliminary committees were appointed, being a Nominating Committee, which recommended the officers and executive committee set-up, and a Resolutions Committee, which included among its resolutions, as drafted, the Articles of the Association and By-laws, following closely the suggested articles of this nature previously supplied to the prospective members. The resolutions were adopted and the Association launched. The proceedings were quite informal.

In cases where there is no Clearing-House or similar association to sponsor the movement, the same general results may be accomplished by a small group assuming the initiative (as was the case in forming the State Association of Michigan).

A third type of preliminary organization of a state-wide movement of this nature would be for the vice-president of the Trust Company Division of the American Bankers Association for the particular state to issue the call in the name of the American Bankers Association.

Purposes

The purposes outlined by the Corporate Fiduciaries Association of Omaha and Lincoln, Nebraska, contain a model set of reasons for the formation of such a body to which little could be added, and are:

> "I. To promote the general welfare and usefulness of trust companies and trust departments of national banks.
>
> "II. To secure a more widespread recognition of the character and value of their fiduciary services.
>
> "III. To make more uniform and definite the usages, customs, fees and laws governing their activities.
>
> "IV. To secure the practical benefits to be derived from personal acquaintance and from the discussions of subjects of interest and importance to corporate fiduciaries."

Organization Scheme

The scheme of organization may vary from one of the most informal in character to one with a

regular set of officers, committees and activities, depending somewhat upon the size and largely upon the desires of the membership. Activities of all such bodies must be performed by working committees, around which must resolve the particular life of the organization. Of such committees, variously named, the following seem to be the most common.

Legislative and Legal.
Meetings and Program.
Membership and Welfare
New Trust Departments.
Standardization of Fees.

The names readily suggest the divisions and their activities.

Meetings and Dues

Meetings should be held at more or less fixed intervals—monthly is usually the case with city associations which are possibly more social in nature; quarterly or semi-annually is usually the case with state associations. Regular meetings should be provided even if infrequent.

The dues generally are nominal. In some instances the assessment method with a limit on the annual maximum is employed.

So much for the general organization of a corporate fiduciary association.

Principal Activities

There are certain activities which recommend themselves to the consideration of every association. These are:

1. Affiliate with and make use of the facilities and services of the Trust Company Division of the American Bankers Association and thus gain the strength and advantage of participation in the nation-wide scope of trust development and usefulness.

2. Bring about as early as possible a standardized fee schedule. Nothing contributes to the usefulness of a trust officers association, as well as to the stabilization of the values of trust services, more than a just operating schedule of charges, adhered to by all. Practically all fiduciary associations have adopted or are working toward the adoption of uniform fee schedules. The schedule adopted by the Trust Company Division of the A. B. A. is now in the process of revision.

3. Study the trust laws of the state and set about to modernize them. It will be a slow process but is of the utmost importance to success and safety. This may be started with a general fiduciary act, similar to that of New York State which is the model for a new and similar act in Kentucky. The Ohio Association was originally formed to foster such legislation. This may gradually be superseded by a general revision of trust laws of the state as has been notably the case in California, and as is the crying need in the Southeast today.

4. Study and standardize the general operating practices so as to preserve "the trust idea" through the rendering of careful, conscientious and understandable performance of fiduciary duties. An error in the Middle West may frighten away a trust prospect in the South; whereas the successful handling of a trust item in one point of the country may promote that degree of good will necessary to consummate a trust contact in another community. Uniformity contributes to public understanding.

Cooperation with Attorneys and Life Underwriters

5. Work out a simple, frank understanding with the local and state bar association and lawyers clubs. As this is a vast subject in itself upon which volumes may be written, reference is made to it here only to say that a unified front is particularly essential in this form of "collective bargaining."

6. Develop a common ground upon which to meet the life underwriters. The Corporate Fiduciaries Association of Philadelphia, for example, recently supervised a Lecture Course Schedule of ten weekly meetings on life insurance trusts, life insurance as applicable to estate purposes, estate administration and problems, taxation, etc., for which a nominal tuition fee was charged to defray the expenses, and enrollments, were accepted from banks, trust companies, insurance underwriters and members of the bar.

A Forward-looking Program

7. Adopt a program looking forward over a period of time, so as to give perspective to the subject of corporate fiduciary progress in your own community; for trust service is a long time one and development of it in a uniform organized manner will build securely and substantially and return dividends to all concerned, increasing as the years are traversed. The rate of development to over 60,000 appointments of corporations as executor and trustee in 1929 demands that careful preparation be made to handle this business as uniformly as is possible.

The Bergen County (New Jersey) Corporate Fiduciary Association outlined its program for the first three years of its existence as follows: First year—expansion and consolidation of membership. Second year—development of organization, including formation of strong committees and initiation of educational effort by means of talks and open forums. Third year—development of intercourse among membership, the mutual cooperation and exchange of ideas, which resulted in the much to be desired elimination of many unfavorable practices and the

stressing of the responsibility which institutions bear to their customers.

8. Consider a cooperative advertising campaign on trust facilities at least on a once-a-month basis. I am a firm believer in that form of concerted public education.

Increasing Number of New Organizations

There are fifty-seven associations of this character recorded with the Trust Company Division of the American Bankers Association, the parent organization of trust institutions in America, each with definite purposes and a more or less extensive outline of constructive work to be carried out. Of this number twenty-seven are statewide associations, seven of the twenty-seven are functioning trust sections and seven more are Committees on Trust Powers and Trust Matters of State Bankers Associations; twenty-five are city or inter-city organizations, in many cases meeting with and as part of the State Banking Associations of the respective states; the remaining five are county or inter-county bodies.

Each city and State should have such an association. There are seventeen states which do not have a functioning organization, either state, county or city. There are many cities in which the trust men have not gotten together to work out their common salvation.

A Promising Field

All of these present fields for the development of corporate fiduciary bodies which can mean as much to their members as do the associations already functioning to their constituents. With popular understanding of trust facilities materializing into appointments at a rate of over one hundred per cent increase in two years it seems beyond the realm of understanding that a group of trust men, whether in city or State, would permit themselves to drift along without a medium of contact for the discussion of their common problems; for the development of profitable understandings; for the discouraging of price-selling of their wares; and for their advancement in a unified manner in their profession.

The personal executor and trustee, generally speaking, whether a business man, a friend or an attorney, has not been the success which the modern business methods of these times demand. Do not misunderstand me; estates have been ably administered and will continue to be ably administered by natural persons in the light of experiences of the past. However, the stability of property values and many other considerations point unmistakably as definite reasons for the increase in corporate appointments during the past few years. The corporate executor has rendered indispensable its position. Grouped together with a common understanding, uniformity of practice and presentation, the corporation executors can maintain and develop their earned prestige and increase their value to the communities served.

Among the ten southern States which constitute our general group represented at this conference there are on record with the American Bankers Association only two State and four city associations, two of which function as Clearinghouse Committees, whereas there should be ten State organizations and at least twice that number of city bodies. Every city having a Clearinghouse Association can afford to have a trust officers association. With development of trust work in the South accelerating as we know it to be, with the status of personal property and other types of taxation confounding practically every state in this region, with antiquated trust investment laws to be found in the statutes of each state and with absolute paucity of trust legislation in the South, there is work for definite, well organized and smooth running fiduciary associations in every southern locality.

DISCUSSION

MR. BAILEY: Mr. Pelham, will you please discuss the comparative merits of an independent association or one that is a section of the State Bankers Association?

MR. PELHAM: It depends upon circumstances. In Michigan the association was organized because the banks outside of Grand Rapids and Detroit felt that their problems were different from those in the rest of the state. Now I understand the association is being expanded to include Detroit and Grand Rapids, and will be part of the state organization.

I think that the younger, more active men in the trust business, those that have the forward look and are not swamped with the detail immediately in front of them, if working together, will start off better in an independent organization.

In Georgia our organization is independent of

(*Continued on page* 55)

Can Corporate Trust Business Be Developed Profitably in Southern States?

By Robert G. Stephens

Vice-President and Trust Officer, Trust Company of Georgia, Atlanta, Ga.

Corporate trust business is the most difficult of all forms of trust service for the southern bank or trust company to secure. Moreover, unless handled in volume it is the least remunerative, and there is no class of trust business in which the risk of handling it is so great in proportion to the fees received.

Corporate trust business can be, and it is, being developed by the larger corporate fiduciaries located, for the most part, in the southern centers of finance.

Receiverships, escrows, assignee for the benefit of creditors, and the like, constitute a class of business that is highly profitable with the smaller fiduciaries and which is more easily kept at home than the orthodox form of trust service in connection with bond and stock issues.

Appointments as registrar and transfer agent usually follow the financial underwriting as night does the day. Thus it will be found that the underwriting end of the business must function before the corporate trust department is apt to secure a large number of appointments. Other methods of developing business include arrangements for the aid of local financial underwriters and attorneys and sometimes for the intervention of influential directors, stockholders or customers.

One of the best ways to advertise the merits of the institution to the public is to have the trust company's name appearing on safe and sound issues of bonds and stocks having a local distribution. On the other hand, a trust institution should beware of becoming linked with a doubtful promotional or stock selling scheme, for there is no surer way to destroy confidence in a corporate fiduciary than for it to be identified in any way with such transactions.

THE development of corporate trust business has followed in the wake of corporate financing of business enterprises by banks, trust companies and the underwriting firms of investment banks. The scope of this service extends over the entire field of corporation financing and thus derives its name, corporate trust service, from that fact. However, in most institutions the corporate trust department handles, both for individuals and for corporations, receiverships, escrows and other accounts which may perhaps be classified as quasi-personal trust services rather than corporate trust services.

The types of service banks and trust companies usually classify as corporate trust business include: trusteeships under bond issues, the transfer and registration of corporate stocks, coupon paying agencies, receiver and assignee of assets of individuals and corporations, escrows and sometimes fiscal agencies, particularly when acting for corporations. There are other forms of corporate trust service of course but these are the general classes into which most of this business falls. In some jurisdictions trusteeships in bankruptcy are included among the corporate trust service rendered by banks and trust companies. In fact, in New York City the Federal Court has appointed a New York trust company as trustee in bankruptcy in all cases coming before that Court.

ROBERT G. STEPHENS

was born on Sept. 26, 1892, in Atlanta, Georgia. He was educated in the public schools of Atlanta, a preparatory school in North Carolina, and in the University of Virginia. Between preparatory school and college, over a period of two years, he worked in a bank, rising from runner to teller's cage. During the war he served in the army from May, 1917, until demobilized after the armistice. He served overseas in Field Artillery and in the Aviation Corps, and now is a Major in the U. S. Army Reserve Corps.

He has been admitted to the Bar and to practice in all courts, including the Supreme Court and the Federal Courts, in Georgia, and engaged in active practice until 1924, when he assumed his present duties as Trust Officer of the Trust Co. of Georgia.

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Gravitates to Large Financial Centers

Heretofore and up to very recent years southern banks and trust companies did not attempt to handle corporate trust business except here and there in a very small way and most of this business went to the larger centers of finance for reasons which are obvious. The underwriting of corporate securities was a form of business which was hardly known in the South until a few years ago; the so-called investment banking field wherein the corporation might secure the underwriting and distribution of their securities was largely concentrated in the important cities of the East and Middle West. Having had the lead in this phase of trust service the larger cities of the country still retain their predominant position in this field and will probably continue to receive the larger share of this class of business. Certainly the corporate fiduciaries of New York City will always receive transferships and registrarships of corporate securities listed on the New York Stock Exchange because of the rule of that organization requiring corporations whose securities are listed on the Exchange to appoint a New York Transfer Agent and a New York Registrar.

With the so-called personal trust services including executorships, administratorships, personal trusts, guardianships and the like, there are many influences in favor of the local bank or trust company. In most of the southern States the laws preclude a non-resident, either an individual or a corporation, from acting as executor and in many cases from acting as trustee or guardian except under conditions which tend to discourage non-resident trust companies and even non-resident individuals from attempting to qualify for such purposes.

These restrictions, however, do not apply to corporate trust service, and a corporation whose financial affairs are large enough to merit the appointment of a corporate trustee, transfer agent or registrar, can, with slight inconvenience go to New York or one of the other centers of finance for this service and it is only where its securities have a localized distribution within a restricted area that there is any compelling reason for a local transfer agent or registrar or a local trustee for an issue of bonds.

Appointments Follow Financial Underwriting

And this is especially true where the financing or underwriting is undertaken by a non-resident investment bank. Usually the underwriter reserves the right to name the corporate trustee for all corporate trust services which may be required under the terms of the underwriting agreement and these appointments usually are reserved by the investment banking house itself or passed on to the friendly assisting banks cooperating in the underwriting. None of us can doubt that the larger portion of desirable corporate trust appointments "follow as the night the day" the financial underwriting itself and there is frequently no choice on the part of the corporation whose securities are involved as to the appointment of the corporate trustee or agent.

It is but natural for the underwriter to control these appointments for they themselves are for the most part linked with or assisted by some financial institution, a part of whose business it is to render such services and whose participation in the underwriting is conditioned on its appointment for the purposes required. Even where it is not stipulated it is but natural that the underwriter should influence and direct these appointments to the friendly bank or trust company with which the underwriter itself does business or is closely related. Where the local corporation attempts to divert these appointments to local institutions they are met with the argument that the underwriter is responsible for the successful distribution of the securities and that this is facilitated by the appointment of a metropolitan corporate trustee.

Least Remunerative Form of Service

Corporate trust business, since it is not compelled by local laws or restrictions to confine itself to local institutions, is unquestionably the most difficult of all forms of trust service for the southern bank or trust company to secure. Furthermore, it is perhaps the least remunerative of all forms of trust service except where handled in volume because in order to perform satisfactory service a technical organization must be built up whose experience and training will permit the efficient handling of a very technical form of service. In the handling of transfer and registration of stock certificates the risk is out of all proportion to the remuneration of the transfer agent or registrar and should never be regarded lightly or entrusted to those of small experience to handle. The reason of course that this class of business is profitable only on a volume basis is because of the fact that the fees and charges for such services are more or less standardized, based on the charges of New York banks and trust companies and other large centers of finance whose accessibility to the market provides them with a volume of business of such proportion that the overhead cost incident to handling is reduced to a minimum per item which enables fee schedules to be maintained that are utterly unprofitable to the smaller, more isolated institutions attempting satisfactorily to handle this class of business.

Let me repeat that corporate trust service in the main is generally confined to institutions undertaking directly or linked up with local financial houses who undertake the underwriting of corporate bond and stock issues. Corporate trust service in connection with stocks and bonds is largely standardized and superiority of service can hardly be argued in favor of a small institution against a large one. In fact, the shoe is usually on the other foot. Secondly, corporate trust business is profitable only on a volume basis because the fees are usually based on a per item charge and in competition with large organizations with low overhead costs per item. It is just like some small local automobile manufacturer trying to compete with Ford on the same type of car.

Coupled with all this there is no class of trust business in which the risk of handling is greater in proportion to the remuneration received. Surely I do not have to argue to you the responsibility which might attach to the transfer or registration of one certificate of stock for 100 shares having a market value of perhaps $20,000 and out of which transaction the corporate trustee, would derive the munificent remuneration of perhaps 25 or 50 cents at the outside.

Can Be Developed in Larger Southern Financial Centers

In view of the foregoing, if any of you are still interested in this class of business I will attempt to discuss the question—"Can Corporate Trust Business Be Developed Profitably in Southern States?"—the answer being—it can be so developed and it is being so developed in the larger corporate fiduciaries located for the most part in the southern centers of finance.

Perhaps I should make clear at this point that certain forms of trust services which we are prone to classify as corporate trust services, meaning receiverships, escrows, assignee for the benefit of creditors and the like, constitute a class of business which is highly profitable with the smaller fiduciaries and which is much more easily kept at home than the orthodox form of trust services in connection with corporate bond and stock issues.

There is a fertile field in every community for the so-called personal trust service. Every man who has any property or insurance is a prospect for the local bank or trust company and usually such a prospect has no appetite for a trustee located in a distant place away from his dependents.

Unfortunately there is no such fertile field, at least at the present time, as regards corporate trust business and it is not susceptible to sales effort in the same manner that such constructive business building could be applied to the personal trust service. The corporate fiduciary must usually await the need of corporate trust service by some outside agency before any effort can be made to secure this class of business. It is not a question of selling a cold prospect on the idea of his need of service but rather of selling an interested prospect, who already recognizes the need, on the proposition that your company is the trustee he should appoint.

Underwriting Department Must Function First

More than this it is usually a question of selling the underwriter and not the corporation itself. Like the friends of the little red hen—it may embarrass you to run up and ask to eat the cake in the making of which your institution has not assisted. Therefore, to such of you whose institutions engage in the underwriting of securities as well as the rendering of corporate trust service, you will find that your underwriting end of the business must function before your corporate trust department is apt to secure a large number of corporate trust appointments.

Where your institution has had no participation whatever in the underwriting, nor has it assisted the underwriting house financially it is indeed difficult even to learn of the proposed corporate financing be it a bond issue or a stock issue until all details

of the corporate trust appointments have been determined upon and agreed to and the stable door is locked so far as your institution is concerned.

Despite the factors just outlined corporate trust service can be built up and gradually made to pay by banks and trust companies whose size justified them in undertaking this class of trust work. I most certainly do not favor the small corporate fiduciary attempting to handle this class of work because of the risk involved and the fact that an organization capable of handling the work properly can never be justified on the basis of compensation allowed for this work.

Methods by Which Business May Be Secured

With the more sizeable corporate fiduciaries in the South arrangements should be made with the local underwriters, where these firms are participants in the financing, to secure corporate trust appointments. While not usually the case, sometimes a corporate trust appointment can be secured where the corporation is a customer of your institution and particularly where one of your influential directors or stockholders can intervene in your behalf. Sometimes trades can be arranged giving the transfer agency to one institution and the registrarship to another. Especially is this true where more than one agency or co-agency is created.

In the case of local corporations whose securities are distributed in the South and who do not desire their securities listed on the New York Stock Exchange an effective selling argument in favor of the local bank or trust company can be built up on a basis of safety and economy. Also, by cultivating the confidence and good will of the bar. The lawyers who represent these corporations will offer their support in favor of a well organized local fiduciary. This also applies to receiverships upon which the limitations applying to bonds and stocks do not exist. In these cases your fees are regulated by the courts and it is entirely possible for a relatively small corporate fiduciary to be appointed receiver of a very large enterprise and in this way bring into such institution commensurate profit.

As to trusteeships in bankruptcy these are not generally profitable except perhaps in cases where you can pick and choose taking only the larger ones and this you will not be allowed to do.

Trust appointments may be secured by local fiduciaries in the South by inducing foreign corporations to domesticate within the State in which such fiduciary is located and this applies also with reference to collateral appointments in connection with securities of corporations having a wide local distribution for the convenience of their local stockholders.

A certain amount of general advertising is necessary to keep the name of your institution before the public and to create confidence in your reputation for service. One of the best ways to advertise the merits of your institution to the public is to have your name appearing on safe and sound issues of bonds and stocks having a local distribution. On the other hand, there is no surer way to destroy confidence in the corporate fiduciary than for it to be identified even in a trust capacity, with doubtful securities or promotional transactions which turn out badly, which brings me to the last topic of my discussion.

"Beware of the Greeks Bearing Gifts"

Always the first step of the unscrupulous promoter and the visionary schemer of financial dreams is to induce some bank or trust company to put its name in some manner or fashion behind the venture before it is presented to the public, so that clever salesmen may leave the implication, indeed, if they do not voice the assurance, that the bank or trust company is behind the transaction. Just as competent service, though poorly rewarded, brings other business more remunerative, so in inverse ratio does the lending of your name to doubtful enterprises bring injury and reproach to the corporate fiduciary. It will injure your other trust business. Do you believe that an investor finding the name of your bank on defaulting issues and on securities of enterprises unsound in their inception or on securities wasted because of the inattention of the trustee will be apt to select your bank as the financial guardian of his wife and daughter or the manager of his estate? Surely not.

Your greatest problem always is to detect the "wolf in sheep's clothing." Do not solicit appointments until you are satisfied of the soundness of the enterprise and the safeguards provided. And look with care on the gift horse that selects your bank to be trustee of a new and untried undertaking, especially where such business is not introduced under known and reliable auspices, and under no circumstances let the name of your institution be linked with a promotional or stockselling scheme in connection with a new venture.

Like Caesar's wife, your institution must be careful of the company it keeps for the public will not distinguish between your status as hired trustee and that of the stock vendor who has swindled them. Unto the public your name should be a warranty.

DISCUSSION

Fees for Corporate Trust Service

C. F. Zukoski, Jr. (Vice-President, First National Bank, Birmingham, Ala.): Mr. Stephens, have you a published schedule of fees for corporate fiduciary work?

Mr. Stephens: Yes, sir; the Atlanta Clearing House Association publishes a fee schedule which undertakes to fix a minimum fee for all classes of trust service, for personal and corporate trusts. The corporate trust service fees follow, substantially, the New York schedule. Of course the remuneration on personal trust service is our own.

Guarantee of Stock Certificate Endorsement

J. H. McGee (Asst. Vice-President and Trust Officer, South Carolina National Bank, Charleston, S. C.): Whose guarantee do you take in the endorsement of a stock certificate? Must the guarantor be known to you personally, or do you accept the rules of the New York Exchange?

Mr. Stephens: That is a point we have considerable difficulty with from time to time with the New York Stock Exchange. However, I prepared a brief on the subject, I think it was in 1925, and took it before the Committee of the New York Stock Exchange having in charge the transfer of and registration of certificates listed on the Exchange, and they finally concurred with us in our viewpoint. They required the banks in New York City to transfer stock certificates on the signature of a member of the New York Stock Exchange, without any further guarantee, and undertook to say that banks located out of New York City would be required to handle these stock certificates on the signature of some member of the Stock Exchange. We require in every case the guarantee of some bank or banker to whom the endorser is personally known. You know, the Supreme Court has held that that guaranty is not a warranty of ownership; it merely guarantees that the signature is that of the person whom it professes to be; not that that person has a good title to the certificate. Otherwise you would never get a bank to guarantee a signature. They merely guarantee that the signature is that of the person it professes to be. We require some bank or banker to guarantee every signature on a stock certificate unless the person is personally known to us. We are called upon every day to guarantee a great many signatures of our customers for the transfer of corporate securities at other points.

Mr. McGee: Thank you, sir; that answers the question.

More Privately Owned Businesses in the South

Chairman Andrews: The southern business man, I think, more than in any other section of the country, still runs his own business. There are more partnerships, there are more private corporations, the stock has not been scattered through the listing of securities on the exchanges as largely in the southern States as in the other sections of the country; consequently, upon the death of the sole proprietor or the partner or the stockholder who owns 99 per cent. of the stock of a corporation, what happens? He names a corporate fiduciary to administer his estate and we find ourselves constantly receiving businesses about which the trust company or the trust department knows very little.

It was recently brought home to us very forcibly. The Fourth National Bank of Montgomery closed recently, and one of their accounts was the owner of a circus. The circus had winter quarters here. The owner carried substantial accounts with the bank, and during the winter season borrowed from the institution in order to carry over the slack season. They say that upon the close of the Fourth National Bank the owner of the circus hurried into our institution and asked the Chairman of our Board if he ever attended the circus and, as the story goes, he said no, that he never had been to a circus in his life and that he didn't know anything about a circus. The circus man replied, "Well, you'd better learn quickly because you own one."

He has just taken the circus on the road last week, and we sincerely hope that he comes back after a successful season; otherwise we might own one. If that particular man passes away, the trust department will own a circus, and I assure you that I know very little about the handling of lions and elephants and monkeys.

Our symposium today consists of four brief talks on "How We Are Handling a Going Business in a Trust Estate." We have first Mr. Troy Beatty, Trust Officer of the First National Bank of Memphis.

(*Symposium will be found on page* 48)

Other Departments Most Profitable Source

(*Continued from page* 23)

of life insurance trust agreements, but many underwriters have suggested living trust accounts to beneficiaries upon the payment of death claims, and furthermore, have recommended trust services in the administration of estates. I find that the life insurance underwriter, touching as he does, the life of practically every one, and who is regarded as a friend by all religious creeds and civic bodies, is in a position to spread a great amount of good will and to give wise and sympathetic counsel at a time when it is most needed.

In conclusion, may I add that it has been our experience, and I am sure the experience of most fiduciary institutions that our directors, stockholders and employes are one of the best mediums of advertising trust services that we have. Our directors and stockholders, when acquainted with the benefits of trust services, have an approach to trust prospects because of their close friendships and business associations that in a great many cases could not be made otherwise. It has been our experience that once they are convinced of the logic and efficiency of trust services, they will take an active interest in recommending it to their business associates and friends, and we have secured several valuable accounts, which undoubtedly could not have been had, except through this means.

Spirit of Humanity Inherent in Trust Service

"OUR duties and relationships to the clients of our trust department are entirely different from the duties and relationships that we have to our clients in the ordinary commercial departments of our bank. Trust service is a highly specialized service. No man would make a good trust officer who is cold-blooded, grasping, hard; but he must have the spirit of humanity in him because he is to help people—the widows and orphans—who are not able to help themselves.

"You may think that when a man deposits money in your institution he reposes confidence in that institution and it is true that he does. But compare him with the man who has spent long years in hard work, making sacrifices on every hand to accumulate an estate; and who turns over to you the last document that he will ever have recorded, saying, 'I can go no further; I have done all that I could; you take my place and see that the money that I have amassed is safe and serves the purpose for which it was intended.' He goes further than just wanting to save his money. He knows, and you know, that unless the money is wisely spent, it not only will fail to be a blessing for those for whom it is intended, but it will be an absolute curse. We all see where people were ruined because they didn't know how to spend large sums of money that they had accumulated or inherited. When a man comes to you and says, 'Care for it all'—Men, there is no higher duty or responsibility devolving upon us than that.

"Trust Service enables you to do more service to the people as a whole, and to humanity, than does any other class of business. We as trust men have a wonderful opportunity, and we are here to confer together so that when we go back to our respective homes we will have a broader, higher, better vision of our opportunities, of our responsibilities, and of our duties."

GORDON L. GROOVER,

Vice-President and General Trust Officer, Citizens and Southern National Bank, Savannah, Georgia.

(*Presiding Officer, First Session, Third Southern Trust Conference.*)

How We Are Handling A GOING BUSINESS in a Trust Estate

A SYMPOSIUM

The variety in types of business that may fall to the lot of a trust department in the administration of estates is revealed in this symposium. The experiences related by representatives of four southern banks cover the operation of: a New England newspaper plant; a southern plantation; a chain shoe department business; and a 440-room apartment hotel. In common, these instances show that the procedure of a trust company upon receiving a going business in a trust estate is: to make a thorough survey of the physical condition of the business; to install a thoroughly modern and efficient system of accounting and frequent reports; to obtain technical advice, often from individual members of the trust company's own board of directors, in regard to details of operation; to install or continue a local manager; and to keep in constant touch with the local situation.

The consensus of opinion appears to be that it is the duty of the trustee to get the business out of the trust estate as quickly as an advantageous sale can be arranged. It is pointed out that, except in cases where it is the testator's expressed wish that a going business be retained, the trustee's function is to conserve the trust estate and to convert its speculative or hazardous assets into a safer form of investment at the earliest opportunity.

The greater service can be rendered, it is agreed, by advising prospective testators of modern sound and practical methods of keeping going concerns out of estates.

Reviving a Failing New England Newspaper

By TROY BEATTY, Jr.
Trust Officer, First National Bank, Memphis, Tennessee

THE experience I have chosen I am presenting because of the unusual and interesting features it has contained.

A widow, now a citizen and resident of our State, but formerly of one of the eastern States, is the executor and trustee under the will of her husband, probated in the foreign State. Under the residuary clause of the will she has a life estate in (and full authority to vote and exercise practically all other prerogatives of ownership of the controlling stock) an old, established and very valuable newspaper plant in an historical New England town, one of the early centers of American culture.

A Sad Story of Diminished Dividends

Acting under the authority vested in her, or rather failing to act under the authority vested in her, she had allowed the business to jog along under the same men who had worked for her husband, no one definitely responsible for policies or results and no one actively directing affairs until, some ten years after his death, she came to us with the sad story of diminished dividends and asked our assistance.

The result was a voluntary trust, having among its other assets a New England newspaper plant, and the experiences that have ensued have been most novel and interesting.

TROY BEATTY, JR.

was born in Darien, Georgia, Feb. 5, 1895. He graduated from the University of the South at Sewanee, Tennessee, in 1916 with the degree of B.A., and from the University of Memphis Law School in 1922. He served in the Trust Department of the Union & Planters Bank & Trust Company of Memphis from 1918-1926, the last several years as Assistant Trust Officer, and since 1926 has been Trust Officer of the First National Bank of Memphis.

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The trust instrument was drawn up along the usual lines, except for two provisions. These, while fundamentally not much at variance with similar provisions frequently found in such instruments, seem to stand out as dominant and vital features of the agreement, largely, I suppose, by reason of their emphasis and importance in this particular contract. One is a form of permanent proxy or voting trust power, embodied in the instrument, by which the lady vests in our institution or its officers the right to represent her and vote her stock at all stockholders' meetings of the corporation, and likewise binds herself so long as the agreement remains in force to execute any supplemental or additional proxies or powers that may from time to time be found to be necessary. The other unusual provision, novel also only by reason of its relative importance, is an indemnifying agreement protecting our institution and its officers from any loss or liability. The extreme importance of this provision, as will readily occur to you, is occasioned by the fact that our client has only a life interest in the subject of the trust, and in addition to our responsibility to her and to minority stockholders there is probably an accountability also to the remaindermen under her husband's will.

No Stockholders' Meeting in Ten Years

A preliminary survey immediately instituted disclosed that for ten years there had been no stockholders' nor directors' meetings, no officers elected, no dividends declared; that such checks had been mailed her as from time to time the treasurer, by general acceptance, had seen fit to mail her; that without head or guiding hand the business had gone on of its own momentum, and was only after a period of ten years becoming wobbly and showing signs of serious illness.

With the help of a local attorney we promptly got legal complications in proper shape, elected to the directorate our trust officer and an associate, ordered a comprehensive audit and survey, introduced to our readers our old friends Andy Gump and Tarzan of the Apes, employed an energetic and capable young managing editor, and the old paper has emerged from its senility into an active and very vigorous second childhood.

From "Granny Tribune," the name by which it was generally and reverently known on our first acquaintance with it, it has become the "New Tribune," and the subscription list, the street sales, the advertising, and the financial returns have all shown a very marked and gratifying increase.

Every morning in our mail appears the Tribune, and it is a rare day that its every page isn't scanned pretty thoroughly, particularly the editorial outpourings. For old Memphis on the Mississippi to be directing the policies of one of the staunchest old wheel horses of the G. O. P. may be a bit ironical, but so far, fortunately, they haven't nominated anybody in opposition to Bobby Jones or tried to claim Sidney Lanier as a native New Englander.

Constant and Active Supervision

Every month we are furnished a complete itemized statement of receipts and disbursements, of advertising lineage, of subscriptions and other circulation, compared respectively to the previous month and to the same period of the previous year. We keep constantly and very actively in communication by correspondence, and at the time of the annual stockholders' meetings, and on other occasions when it seems desirable, we arrange to have one of our officers personally on the ground.

The time limit forbids that I go into the amusing complications we have been drawn into, such as a row about space allotted opposing political factions, support to be given various public and semi or quasi public enterprises, the choice of pages between competing large advertisers, or the settling of a petty police boycott occasioned by our discontinuance of a long established free supply of papers to a patrolman for distribution to favored "patrons" on his beat. The whole experience has been a very interesting one, and to date I am gratified to report has been a most satisfactory one to all parties concerned.

Qualifying as a Plantation Manager

By E. D. KENNA

Assistant Trust Officer, The Merchants Bank & Trust Co., Jackson, Mississippi

DURING the six years that I have been connected with the trust department of The Merchants Bank & Trust Company of Jackson, Mississippi, practically every estate that we have handled has involved, more or less, farming interest. Our experience, I am sure, has been the experience of practically every southern trust officer, especially in our smaller centers. It occurred to me, therefore, that it might arouse your interest and thereby provoke a discussion that would be highly beneficial to all of us by confining my remarks to one particular planting operation which we have carried on since 1924. Our bank is named executor-trustee in the will of the decedent who owned among other things at the time of his death a Delta plantation consisting of several thousand acres.

In reference to these lands the will provided: 1. That the plantation should not be sold, but should at the expiration of the trust created be turned over to the heirs in good condition. 2. That the trustee should under no conditions make advances to the tenants from the funds of the estate, but that the trustee might employ a manager.

Solving Management and Tenantry Problems

You can readily see that under these restrictions we were faced with a very difficult situation. To abandon these lands and allow them to grow up in weeds would have been greatly detrimental to the best interest of the estate and also violative of the terms of the will since we are to turn the lands over in good condition. It was necessary then that we continue to run this plantation without involving the estate to any extent further than a manager's salary.

The testator died in January, 1924. Plans were already in process for the operation of his business during that year; immediately it was necessary to change all of the plans which had been formulated.

Our first problem was to secure the services of a reliable and capable plantation manager. This we were able to do without any serious difficulty.

Our second and greatest problem, however, was in connection with the tenants on the plantation. A few of these tenants owned their mules and rented the lands cultivated, but a great majority of them were what we call "share-croppers." The plantation owned the mules and implements used by the "share-croppers." These mules and implements we sold to the

E. D. KENNA

was born in Summit, Mississippi. He received the degree of B.S. from Mississippi College, Clinton, Miss., in 1920. After teaching school for three years he studied Law at Columbia University, later taking the degree of LL.B. from Cumberland University. After admission to the Mississippi Bar in 1924 he became connected with the Trust Department of The Merchants Bank & Trust Company, Jackson, Miss. He is today Assistant Vice-President and Assistant Trust Officer of that institution.

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tenants, taking their notes secured by their interest in the crop, then all tenants were placed on a rental basis. From each tenant we determined how many members in his family, the number large enough to work, the approximate acreage desired, and the minimum amount of money it would take to furnish his family through the season. The advances to be made were determined by the acreage to be cultivated and the number in the family. With this information we approached several supply merchants in an effort to get the tenants furnished without any obligations on our part, but failed to obtain much encouragement. Finally we were able to arrange with a local bank to make the advances necessary, waiving our Landlord's Lien to that extent on the crop to secure the bank. This arrangement we have found entirely satisfactory to ourselves and to the bank. The bank has never lost one cent on these advances, and the estate during the six years we have managed it has failed only one year to show a substantial profit.

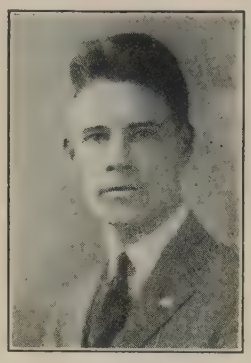
Keeping Faith With the Trustor

On or about the first day of March each year we visit this plantation and while there we secure the notes of all tenants for the amount to be advanced These notes we take to the bank and open an account for each tenant. The tenants are allowed to draw

only one check each month and that check must be countersigned by the manager of the plantation who is, of course, under bond. At least once each month during the year a representative of our bank visits this plantation and goes over the entire situation with the manager.

Each tenant on the place is required to grow his own feed. All of them are allowed a small garden spot and are encouraged to grow vegetables. Every family is allowed to keep a cow or cows and a common pasture is maintained. We have found that these things go a long way toward keeping the labor happy and satisfied with the result that our labor turnover has been small.

As stated before, this arrangement has proven entirely satisfactory both to ourselves and to the bank as well as profitable to the estate. The lands have been kept in a good state of cultivation and the houses in good repair. This has not been accomplished without work. Our efforts have probably not been sufficiently rewarded in so far as fees are concerned, but great satisfaction has come to us because we know that we have kept faith with our departed friend. We know that we have been true to the trust placed upon us, and we have the consciousness of having performed a real service to the heirs of the estate.



CHARLES F. ZUKOSKI, JR.

was born in St. Louis, Missouri, Sept. 24, 1898. He was educated in the public schools of the City of St. Louis and attended Harvard College and the Harvard Law School, receiving the degrees of A.B. and LL.B. In 1921 he began the practice of law in the City of St. Louis with the law firm of Bryan, Williams & Cave. From 1924-1926 he practiced law in St. Louis, when he became Vice-President and Trust Officer of the First National Bank of Birmingham, Alabama.

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Maintaining a Chain Shoe Department Business

By C. F. ZUKOSKI, Jr.
Vice President, First National Bank, Atlanta, Georgia

WE inherited the business of the Jones Shoe Company in January, 1929. Mr. Jones had built up a retail shoe business from small beginnings and at the time of his death was operating shoe departments in five large department stores doing an annual volume of about one million dollars.

The departments operated by the Jones Company sold both men's and women's shoes. The great majority of the business, however, was in women's high grade lines. All but one of the departments were located in a distant state. The departments were leased upon a basis of a stipulated percentage of gross sales and did business in the names of the stores wherein they were located.

Importance of Continuing Leases

The outstanding problem at the beginning of our administration was the maintenance of relations with the several store owners. The leases unfortunately were to Mr. Jones individually and while they gave him the right to assign to a corporation to be organized by him, we were unable to find any written assignments among his papers. In addition, the most important leases carried a proviso that they should only be valid in the hands of an assignee company if Mr. Jones were principal owner and operator of that company. All of the leases had several years to run.

It was clear to us at once that unless we could make the leases stick we would lose the value of the business as a going concern. We had no good will in a name, because each department had conducted its business in the name and as an integral part of the business of the store owner. Without the leases, we merely had left a stock of merchandise which it would be difficult to realize on. With the leases, we had a going business which had made handsome profits and which probably could be sold at a premium.

Our first step was to visit the several stores and to establish the validity of the leases with the store owners. In every case but one we were able to make the point that the provision with reference to the continuance of Mr. Jones as owner and operator could only apply during his lifetime and did not contemplate a termination at his death which would most seriously have impaired his investment. One of the store-owners, however, gave us no definite commit-

ment and obliged us to proceed with the uncertainty as to how long he would permit us to remain on his premises.

Introducing Efficiency

The success of our operation of leased departments of course depended in any case upon efficient management and maintenance of sales volume. We found that Mr. Jones had employed a manager during his lifetime who knew shoes but had no ability as an administrator. Inventories had become excessively heavy with many broken and semi-obsolete lines of shoes. The business was highly seasonal, catering largely to tourist trade seeking rather extreme and expensive styles. Little effective coordination, either in purchasing or in redistributing slow-moving merchandise, had been accomplished. There was no efficient accounting control system and the business had suffered from lack of supervision during the protracted last illness of Mr. Jones.

Under these circumstances it was necessary for us to give detailed study and supervision to the business until it could be sold or until a competent manager could be found. One of our officers consequently made a number of extended tours of the stores. At the city where our largest department was located we secured the aid of a competent firm of accountants and installed a system of budget control. We conferred with all of the department heads and learned their points of view. We installed Mr. Jones' manager as head buyer, but subjected him to the budget system. We employed one of the accountants on half time as administrative head and through him kept in detailed touch with every move that was made. We worked with the manager and accountant in reducing the number of styles carried and the total volume of inventory. We studied sales plans, advertising and various methods of taking advantage of our chain operation. We encouraged full cooperation with the store owners and made contracts with the principal manufacturers from whom we purchased. In almost every phase of the business we were required to assume active and detailed direction.

Finding a Purchaser

This situation of course could not continue. We were in a hazardous business, our leases were uncertain and we did not have a reliable management. We therefore bent our energies toward finding a purchaser and soon entered into a negotiation with a manufacturer who had been a friend of Mr. Jones and had actually assisted him in financing the early development of his business. This manufacturer was interested in retail outlets for his product and also had in mind a merger with another concern, the result of which was to be an issue of stock in the then booming stock market. The Jones Company's business had had an attractive earning record which appealed to the manufacturer's stock broker, and after a number of conferences and the preparation of many reports a tentative trade was agreed upon, netting us a substantial bonus for good-will.

In the meantime the doubtful store owner, sensing the fact that we were about to make an advantageous trade and using as a club the question as to the continuing validity of our lease, absolutely declined to permit our purchaser to operate the business on his premises. A period of three-cornered negotiation followed in which we were finally able by compromise to complete the deal. We got something less as the purchase price, the store owner got an increase in his percentage of gross sales and our purchaser was obliged to pay more rent.

Conclusions Drawn from Experience

Specifically our experience with the Jones Company impressed upon us the following points:

1. Lacking some competent and trustworthy key man in the business taken over, it is imperative to find such a man, or in the alternative to put an officer of the trust organization in detailed charge pending a sale.

2. An adequate system of accounting alone will enable the fiduciary to follow the progress of its management. If the present system is not sufficient it must be improved or replaced. The trust officers should receive daily or weekly reports of major items and monthly statements in detail. The books of the business should be periodically audited. In retail businesses, particularly, budgeting systems establishing percentages of mark-up, permissible inventory, quotas of sales by months or by seasons, and other accounting safeguards should be introduced.

3. Some time should be given to a study of the organization of the business. Is the personnel adequate? Are the salaries sufficient? Should a system of bonuses be inaugurated? Some additional incentive must in most cases be provided for officers and department heads, as a substitute inducement to attentive application to work for the closer direction and supervision which the decedent was able to supply.

4. No problem in the management of a business is of greater importance than that of keeping inventory within bounds. Success in almost every line is dependent on turnover. An inventory must be kept at all times large enough to keep up with sales and to insure variety of products for customers, but small enough to avoid excessive capital investment and obsolescence or depreciation of old goods. Book figures properly kept up to date are of considerable help in reviewing this phase of the business, but experience has demonstrated the desirability of frequent physical inventories as a check on the accuracy of

accounting records and as a visual lesson to persons in charge.

5. The difficulty of carrying on any business after its owner is gone is such, no matter who may pick up the reins, that ultimate conversion into a more liquid and less hazardous form of assets is the end to be sought. Occasional exceptions may arise, as where a business is to be tided over for management by a son after he has acquired sufficient judgment and experience, but in the great majority of cases the interests of the beneficiaries will most effectively be served by sale or liquidation.

Operating a Large Apartment Hotel Under a Receivership

By WILLIAM MATTHEWS

Trust Officer, Fulton National Bank, Atlanta, Georgia

THE real service that a trust department can render a "going concern" is in counseling and advising about it before it gets into a trust estate. In my opinion, the greatest aid that can be rendered is in precluding the possibility of handling a "going concern" in an estate. The corner stone of trust work is the preservation and conservation of estates built up by others for the benefit of dependents. The operation or continuation of the testator's business has in it commercial hazards and speculative features that are anathema to the fundamental concepts of trust estate management.

"Going Concern" Problem Unnecessary

The progressive strides made through the sales genius of life insurance companies and the intelligent cooperation of trust officials have evolved plans and methods which make the "going concern" problem a needless and totally unnecessary burden on an estate. Through a well worked out business insurance trust, or stock interest purchase plan, the liquidation of a "going concern" is consummated at once. It is not really a liquidation as we generally think of this term—it is the sale of the deceased's interest in his business upon his own terms and conditions and for a price that he himself has fixed.

The operation of a "going concern" in a trust estate is generally a misnomer, for we know by experience that in a good many cases we are really operating a "gone" concern.

The corporate fiduciary is being called upon more and more to aid in the liquidation of "going concerns," but it should be borne in mind that its assistance is called in for an orderly liquidation rather than for the operation or continuation of the business.

During the past year it has been our duty as receiver under a court foreclosure to operate a large apartment hotel.

WILLIAM MATTHEWS

was born in Tennille, Georgia, March 27, 1894. After attending grammar and high schools in Atlanta, Georgia, he received his academic and legal education at the University of Virginia. He has been a reporter on the staff of the Atlanta Journal, served with U. S. Army Ambulance Service with the French Army during the World War, and was associated with Little, Powell, Smith & Goldstein in the practice of law, Atlanta, Georgia, for several years. He is at present Secretary and Treasurer of the Atlanta Bar Association, and Trust Officer of the Fulton National Bank of Atlanta, Georgia.

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First Step a Thorough Survey

Our first step in the matter was to make a physical inventory and a thorough survey of the property—a determination of where we were and what we had. In making the survey we were fortunate in having on our Board of Directors an architect, a real estate man, and, among our officers, one who had special knowledge of the management and running of hotels. These connections and contacts illustrate the value of the services of a corporate fiduciary in this connection. An individual receiver could not have had at his command such assistance. Our directors gladly cooperated with the trust department and gave freely of their time and advice to aid us in our problem.

In addition we made a survey of the personnel. This apartment hotel at the time we took it over was employing more than forty persons. The first two

weeks we spent in studying the situation with a view to ascertaining the advisability of cutting down our force and expenses, trying to find out what should be done to increase the efficiency of the plant's operations.

Check on Prices and Insurance

Through the customers of our bank who were merchants dealing in the various commodities that were necessary in the running of the apartment hotel, we were able to check the prices paid and in a number of instances were able, through the advice and information given by our customers, to cut the expenses to a considerable degree. Real estate men among our directors and customers advised with us regarding the renting of apartments.

A check-up on the insurance was, of course, necessary. The magnitude of the enterprise called for complete coverage from fire to workmen's compensation and payroll.

Our duty as receiver was primarily to maintain the status of the property as we found it and to avoid any drastic changes. It was necessary, however, to make changes in the accounting system in order that the trust department might keep the proper control over expenditures, and monthly audits were provided for.

The apartment hotel contains about 440 rooms, 50 of which are furnished, constituting 134 apartments, and a 70 car garage. Complete hotel service is available for guests and a restaurant is also operated.

It was a task that required daily contact with the situation by at least one of the officers of the trust department and generally two. The usual run of problems incident to the running of such an establishment was increased and heightened in consequence of the receivership. In addition to the supervision and superintendency of the operations in great detail, from deciding upon general policies to selecting uniforms for elevator boys, we were constantly conferring with prospective purchasers and advising on various plans for re-financing the defaulted bond issue.

Other Types of Business Liquidated

Our department has also been called in to liquidate a wholesale grocery company, a produce company, a wholesale dry goods and notions company, a department store and a tool and machinery company.

Now, no one institution can be expected to have special knowledge of each particular business it is brought into. Our first step in handling these affairs, after a proper audit and inventory, has been to obtain from experienced leaders all the advice and information possible concerning the particular business involved. We have never encountered any difficulty here, and in the light of the intelligent and expert advice and thought we have received, our problems have been made easier.

Our experience in the operation of going concerns has been extremely valuable, not only to our trust department, but I believe especially valuable to present and prospective customers of the department, because it has made clear to us the dangers and hazards that are inherently a part of their operation and has convinced us of the greater service we can render by advising sound, efficient and practical methods to keep going concerns out of estates.

Possibilities for Trust Business

(*Continued from page 27*)

is the fastest growing form of financial service, and it is most encouraging to report that according to a recent survey made by the Trust Company Division, A. B. A., the number of life insurance trusts established in these Southern States in 1929 showed a 91 per cent increase over 1928, as against a national increase of 67 per cent. In appointments as executor and trustee, the increase in the South was 42 per cent, as compared with 35 per cent for the nation. Fears that the use of trust representatives might bring criticism have proved groundless and it has been demonstrated that trust business can be developed on a large scale. It is natural that most of this business is potential and will mature in the future.

However, the regard of outstanding southern men and women for the services of the modern trust department is exemplified in two appointments. Asa Candler, the founder of the Coca Cola Company, named a corporate fiduciary to settle his estate, while the provisions of the will of Senator Felton, the first woman to serve as a United States Senator, will be carried out by a trust department.

In conclusion, I think that we can fairly feel that there is a real and a constantly expanding market for trust service in the larger centers. From the standpoint of the possibility of service, there is an inviting and unrealized opportunity to perform a highly useful and exalted public service. From the viewpoint of the possibilities of profit, we can expect a financial return commensurate with the effort expended and a department in the bank that is important enough to have the full support, respect and confidence of the executive officers of the bank.

The Life Insurance Trust in the South

(*Continued from page* 31)

they are interested. I believe that it would win the support of life insurance agents more if it would tell the public to ask any competent life underwriter to explain it to them, and offer as an alternative that the prospect come to the trust company.

"I think life insurance men and trust officers can cooperate in a way that will be mutually beneficial providing trust officers will be impartial in advising clients as to what company or agent to consult in regard to their insurance. Of course a trust officer might pick out a number of agents whom he knows represent the best companies, and are personally qualified to render intelligent insurance service, and then suggest to the prospect that he pick out one of those men whom he has confidence in and purchase any additional insurance needed.

"I have never personally created a life insurance trust with a trust company named as trustee, although I have written a large number of policies which planned insurance estates under settlement options offered in policies. In my work during the past three years and nine months, I was not permitted to solicit business personally, but I did assist quite a large number of agents with insurance trust cases. I have also written business which was later placed under life insurance trust with a trust company as trustee, and have also written additional insurance in cases where a trust company had already been named as trustee.

"This month, I have written one case in which the insured is now laying plans to establish an insurance trust. That particular case happens to be on the life of a man in Philadelphia.

"Remarks: My above statements may lend the impression that I am not overly enthusiastic about life insurance trusts, but I assure you that I am very enthusiastic over their possibilities. Before I will take any trust officer into my confidence, however, I have got to feel certain that he is worthy of the confidence and will not do something which will hinder my getting the life insurance business. I believe that every life insurance agent feels the same way."

Now I have chosen to present this question objectively believing it to be worth your while to look at the matter from another angle than that usually presented.

Another speaker might follow me and by the selection of outstanding examples, by the use of totals and percentage increases, could paint a more pleasing picture of the matter than I have here, and both of us be right.

The most useful development of this age in business has been the use of research. Get the facts, understand the factors—all of which is the modern version of "Be sure you are right then go ahead."

Three points stand out in summarizing this subject:

1. That a better understanding of the insurance trust and means of getting the business is necessary, by the public, insurance men and trust men. This is not a job that can be mechanized, but requires intelligent personal attention.

2. As now carried on, insurance trusts are expensive to get; have high lapse ratio and are not in sufficient volume to keep us satisfied with present operations, when properly analyzed.

Greater volume through better methods and more intensive effort, will enable us to handle smaller trusts and give wider service.

3. In a majority of cases where I have found an insurance man enthusiastic about life insurance trusts it develops that his interest and enthusiasm is centered about one trust man and one bank mainly, emphasizing the value of the personal element.

I am convinced that the best way to get insurance trusts is through life insurance salesmen, but no more than a blacksmith can hammer cold iron into shape can we expect to warm others into cooperation except by and through their self interest and the heart-warming contact of sincere personal concern.

I am certain of the progress ahead because the idea is right, the time is right, and the service sorely needed. The life insurance trust is an institution within the description given by Emerson when he said—"He who addresses himself to modes and wants that can be dispensed with builds his house off the road. But he who addresses himself to problems every man must come to solve builds his house on the road, and every man must come to it."

Corporate Fiduciary Associations

(*Continued from page* 41)

the Georgia State Bankers Association, but its Secretary is the Secretary of the State Bankers Association.

MR. BAILEY: You don't think there are any advantages, one way or the other?

MR. PELHAM: No.

W. L. YOUNG (Vice President, First National Bank, Shreveport, La.): Mr. Pelham said that there are only two States in the South, I believe, that had state fiduciary associations. I want to correct your statistics on that point, because, two days ago, the Louisiana Bankers Association provided for a State Fiduciary Association in conjunction with the State Bankers Association.

MR. PELHAM: That is a twelve and a half per cent increase.

Proper Administrative Features That Should Go into SOUTHERN WILLS

By Currell Vance

Trust Officer, American Trust Co., Nashville, Tenn.

Mr. Vance takes a typical will, item by item, and considers the clauses used, their purpose and effect. Among the desirable provisions to be included are: clauses directing that all inheritance taxes shall be payable out of the residuary estate and that the personal chattels shall be bequeathed outright to the widow or other persons. One of the most important administrative provisions is one authorizing the trustee to expend sums payable from the shares of minors, for their benefit, without the intervention of a guardian.

The trustees' powers should be fully enumerated and be broad enough to enable the trustee to meet all situations which can be anticipated. A will which is so briefly worded as to appeal to the testator as a model of simplicity and clearness, Mr. Vance declares, is exactly the will which in all probability is the occasion for the most doubt and uncertainty in its administration and which will be likely to involve the estate in litigation.

The trustee should be given absolute discretion to determine whether funds received shall be deemed income or principal. He should be directed to charge all premiums on investments and to credit all discounts on investments against and to principal and not against or to income.

Authority should be given to the trustee to execute leases which may extend beyond the termination of the trust; to invest in securities outside of those legal for trust investments; and to carry securities in the name of a partnership composed of officers in the bank, in order to facilitate transfer.

Powers sometimes included relate to the purchase or maintenance of a home for the beneficiaries or for the carrying on of a testator's business.

A final clause should nominate the executor of the will and provide that during the administration of the estate all powers conferred upon the trustee are also given to the executor.

MY subject is "The Proper Administrative Features That Should Go Into Southern Wills." My idea is that the word "Southern" in the title was put there not to limit the subject or to indicate that there is any difference which should be found in wills above and below the Mason and Dixon Line, but simply because everyone regards the South as the garden spot of the world, the land of milk and honey, and, since this is a Southern Trust Conference, it would be a shame not to retain the Southern flavor throughout. And so although some of my recommendations may have been imported from the North, just bear in mind that my work is in the South, my experience has been gained in the South, and it is from a point of view so obtained that I speak.

One other liberty I shall take with my subject. Since the ease or difficulty with which an estate may be administered depends, in no small degree, upon the actual dispositions made by the testator, this paper will also have to embrace certain desirable dispositive provisions of a will.

Perhaps the easiest and most direct method for

CURRELL VANCE

was born in Alexandria, Virginia, July 22, 1889. He attended Washington and Lee University and Princeton, receiving the degree of A.B. from the latter in 1912. He attended Vanderbilt University from 1913 to 1916, receiving the degree of LL.B., and was admitted to the Federal and State Bars and engaged in the general practice of law until May, 1917. He entered the Officers' Training Camp and served in the U. S. Army as Captain of Field Artillery until July, 1919, at which time he resumed the practice of law.

In July, 1924, he became associated with the American Trust Company, Nashville, Tennessee, as Assistant Trust Officer, becoming Trust Officer Jan., 1928.

He is a member of the Nashville, Tennessee and American Bar Associations, and is chiefly occupied with legal phases of the estates under administration and with the maintenance of contact and proper relations with members of the Bar.

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covering the subject will be to take a typical will item by item and consider the clauses used, their purpose and effect.

The opening clause identifies the instrument as the testator's formal disposition of his estate at death and revokes all previous testamentary dispositions.

Debts, Funeral Expenses and Taxes

Item One: This item is usually a direction to the executor to pay the debts, funeral expenses and other proper charges against the estate. Unless the testator wishes these items to fall as a charge primarily against a particular portion of his estate the item is really formal and unnecessary.

However, there is one provision which can be appropriately inserted in this item which is not formal and is frequently desirable or even necessary. Under the inheritance tax laws of a majority of the States the tax is considered as a tax upon the beneficiary for the privilege of receiving and is deductible from his bequest or devise. Frequently the testator wishes such bequests and devises to go to the beneficiaries without deduction for inheritance taxes and in such cases a provision should be inserted in the will directing that all such taxes fall upon and be payable out of the residuary estate. Such a provision is practically necessary where the will gives determinable or contingent interests in property, since it is almost impossible to devise an equitable method of apportioning the tax to the beneficiaries in such cases. I believe that the laws of some States provide expressly that where certain property is given to one for life with remainder to another, the inheritance tax upon both successions is to be paid out of the corpus of the property.

Where such a provision is not found in the law and it is necessary for the executor to pay to the State at once the tax on both successions you can readily see the difficulty of the executor's position. Of course, he can consult the mortality tables and calculate very easily the present worth of each succession and the amount of tax that each beneficiary should bear but how is he to collect such tax? He can withhold the life tenant's income until his proportion of the tax is paid but this system may not be satisfactory or fair because the life tenant may die before the income is sufficient or before his life estate has had sufficient duration to justify the value placed upon it. As to the tax upon the remaindermen, if this amount is deducted from the principal, pending the life estate, the life tenant will be penalized in a reduction of income. The situation is further complicated where successive life estates precede the vesting of the corpus.

Notwithstanding the difficulties involved, the executor's duty in Tennessee under our former inheritance tax law of 1919 appeared to be just what has been outlined. In one administration we applied to the Chancery Court for instructions and the Court, in desperation, allowed us to pay the entire tax out of the corpus of the fund in which the will set up successive determinable estates before the vesting of the corpus. Under the law this decision was probably not sound, since the entire tax falls upon the remainderman, but no other solution could be found.

At present in Tennessee the clause directing the payment of inheritance taxes out of the residuary estate is more necessary than ever. At the extra session of our legislature in 1929 a new inheritance tax law was enacted. The official in charge of its enforcement states that it was prepared as a tax upon the privilege of transmitting rather than receiving and that it should be paid out of the residuary estate. While such may have been the purpose of the framers of the new law, I confess that I am unable to determine from a reading of it just how the Courts will construe it. I consider the matter still in doubt and for

this reason urge at every opportunity the inclusion in all wills of a clause specifying that all inheritance taxes shall be paid out of the residuary estate.

Disposition of Personal Chattels

Item Two: In this item the testator usually makes disposition of his personal chattels outright to his widow or other persons. I consider this desirable from the administrative point of view, since the testator is to create a trust with the residue of his estate and the articles disposed of in this item are chiefly valuable for their use to the family, which value would be lost if they passed into the trust and had to be sold in order to invest the proceeds in income producing securities.

Here, also, or in ensuing items, we find any particular bequests or devises which the testator may wish to make, either outright or in trust.

Item Three: This item disposes of the residuary estate. The entire residue is given to a trustee for the benefit of the widow and children. In considering the disposition herein made and the powers, authority and discretion vested in the trustee, we should bear in mind testator's purpose in leaving the bulk of his estate in trust for his dependents. He wishes to leave to his dependents not only sufficient property to support and maintain them, but he wishes at the same time to bequeath to them judgment, experience, solicitude and service. Since he cannot leave to them his own qualities in this respect, he selects a trustee in whom such qualities are found, and charges the trustee with their exercise on behalf of his widow and children. Having confidence in the trustee of his selection and realizing his own inability to look into the future and see what may be needed, he invests such trustee with very broad discretionary powers.

Provisions for Widow and Children

As to the provisions made for his widow and children, briefly they are as follows:

The entire net income is to be paid by the trustee to the widow for her life for the use and benefit of herself and the children. In order that there may be no question, the will provides that her receipt for all sums shall be a sufficient acquittance to the trustee. In addition to the income the trustee is authorized to make appointment of and to pay to her, from time to time, sums out of the corpus to meet emergencies or unusual situations and to care for the children's education. At the death of the widow the estate is to be divided by the trustee, or treated as divided, into equal shares for the children, the issue of a deceased child to stand in the parent's place. The shares for daughters are to be held in trust for their lives, during which time they are to receive the net income. The shares for the sons are to be held in trust until they reach thirty years of age respectively, at which time they are to receive one-half of their respective shares of the corpus, the remainder to be retained by the trustee and distributed to them at the age of thirty-five. The sons are also to receive the net income upon their shares remaining in the trustee's hands.

Upon the death of a child whose share remains in trust, without issue surviving, such share is added in equal portions to the other shares. Upon the death of a child, pending the trust for its benefit, with issue, the share is held for such issue.

The share held for the issue of any child is to be held in trust for the benefit of such issue and the net income distributed to or for such issue until the arrival of the youngest of such issue at the age of twenty-one, whereupon the corpus is to be distributed to them equally.

The trustee is again given the power to encroach upon the principal for the benefit of the children and their issue.

Now comes what I consider one of the most important administrative provisions which can be incorporated in any trust. The testator authorizes the trustee to expend sums payable from the shares of minors for their benefits without the intervention of a guardian. Guardianships are not only a most unsatisfactory method of handling the property of minors but they are extremely expensive. In Tennessee, in the absence of the provision referred to, each minor would have to have a legally appointed guardian to whom the trustee would pay all sums distributable from such minor's share of the trust estate. The guardian would receive a commission in addition to the trustee's commission upon such sums and would in all likelihood require and be entitled to the protection of a court order in making distributions of such funds. The testator has selected the trustee because of the confidence he has in its judgment and fidelity, and feels that he can safely rely upon it to expend the minor's funds for the minor's best interests. A suggested form for the provision indicated is as follows:

> "The Trustees shall, until any minor distributee or beneficiary becomes of legal age, pay in and about the maintenance, education, care and comfort of such minor, the whole or such part of the income of the share of such minor (and of the corpus as hereinabove provided) as in the judgment of the Trustees is reasonably required for the due maintenance, education, care and comfort of such minor in each year until said minor becomes of legal age. The part of such income not paid in any year by the Trustee shall be by it retained and invested, but shall be subject to be by said Trustee treated as income to be drawn upon for the benefit of said minor in any subsequent year until said minor becomes of legal age.
>
> And the voucher of the person in whose lawful custody each such minor may be from time to time,

to whom such money may be paid, shall be a sufficient voucher for the Trustee. Such payments may be made without the intervention of any Guardian or of any Court or of any other person than such payee, but the Trustee may in its discretion require such reports and take such steps as it may deem requisite to assure and enforce the due application of such money to the purposes aforesaid. Any of said income not so paid over by said Trustee before such minor becomes of legal age shall upon his or her arrival at such age be paid over to him or to her."

A Full Enumeration of Trustee's Powers

After the provisions above referred to, the will continues with a full enumeration of the trustee's powers. I am not an advocate of brevity for brevity's sake and at the sacrifice of clearness. It has been my experience that the will which is so briefly worded as to appeal to the testator as a model of simplicity and clearness is exactly the will which in all probability is the occasion for the most doubt and uncertainty in its administration and which will be likely to involve the estate in litigation. This is true because in a great many cases the laws of various jurisdictions vary and the law of the particular jurisdiction involved is often not crystallized in matters which will come up for action by the trustee. It is also true because frequently the propriety of the trustee's action must be based upon the existence or non-existence of disputed or uncertain facts which must be made certain by a resort to the courts.

In my opinion, therefore, it is desirable that the powers of the trustee be fully enumerated and be broad enough to enable the trustee to meet all situations which can be anticipated and to act without the necessity of a resort to the courts for instructions and guidance. I quote the following clauses enumerating the powers of the trustee which seem to me to combine the advantages of brevity and fullness:

"The Trustee hereunder, and its successors in trust, shall have full power and authority to receive, take, collect, receipt for and hold said property to it hereby given in trust, and to compromise, adjust and settle all claims to or against said property, at such amounts and upon such terms of payment as it deems best, and to invest and reinvest said trust estate, convert real estate into personalty and personalty into real estate; to sell, or, for such time as it deems for the best interests of my estate, to retain unsold, any stocks, bonds, or other securities or real estate; to make alterations of, repairs upon, additions to and to erect improvements upon real estate, and to sell, join in or make partition of any real estate, to lease or otherwise dispose of real estate, and to make or vacate plats or subdivisions of real estate (in any case the purchaser from the Trustee shall not be bound to see to the application of the purchase money); and to make or join in the making of leases of any real estate for such terms as the Trustee may deem advisable, the Trustee being given express power to make or join in making leases for a term that may extend beyond the term of the trusts hereof if it deems such course advisable.

The Trustee shall have the power to exercise any right or option of subscription, or otherwise, attached to or which may at any time belong or be given to the holders of any stocks, bonds, securities or investments in which the trust funds are invested. The Trustee shall have the power to join in any plan of lease, mortgage, consolidation, exchange, re-organization or foreclosure of any corporation or other form of business organization in which the Trustee may hold stocks or bonds or other forms of investments, and to take and hold any securities or investments issued under such plan, and to pay any assessments involved therein.

My Trustee herein is authorized to determine in its absolute discretion whether money or property coming into its possession shall be deemed principal or income and to charge or apportion expenses or losses to principal or income, as it may deem just and equitable, and to bind beneficiaries and distributees by its judgment therein, any decision of the Trustee as to any questions as between capital and income to be final and conclusive and binding upon all persons then or thereafter interested in the trust estate. But the Trustee hereunder is directed to charge all premiums on investments, and to credit all discounts on investments against and to principal, and not against or to income, and no person entitled to the remainder or reversion of any fund shall have any claim against the Trustee on account thereof, save to the then principal of the securities or other property it is invested in at the time such right accrues.

My Trustee shall invest and reinvest the trust estate from time to time, as circumstances and good judgment dictate, in such property, real or personal, as in its judgment may be wise. It is expressly empowered to receive from my estate and retain any securities it deems advisable, and is also expressly authorized to purchase securities at their market value from its own Investment Departments. The investments and reinvestments of my estate shall be made in such good and productive stocks, bonds, mortgages or other securities or property as will produce the highest rate of income, having regard at all times for the safety of the principal of the trust estate rather than the hazard of large income, and without the restrictions imposed by the law of the State of Tennessee governing the investment of trust funds.

The Trustee shall have power to make and sign contracts or other written instructions to carry out any of the powers conferred in this Will.

For all payments of money to the Trustee, whether of interest, of dividends, of the proceeds of maturing obligations, of purchase money for securities or other property, real or personal, sold by the Trustee, or otherwise, the receipt of the Trustee shall be a sufficient discharge and it shall not be the duty of any purchaser or purchasers or other person or persons

making such payments to see to the application of the money so paid.

Without increase or decrease in liability the Trustee is authorized to cause stocks, bonds and other securities held in the trust estate to be registered in its individual name or in the name of its nominee.

In any case in which my Trustee is required, pursuant to the provisions of this Will, to divide my estate, or any portion thereof, into parts or shares, or to treat same as so divided, or to distribute the same, I authorize it in its discretion to make such division or distribution in kind or in the cash realized from the sale of the properties involved, or partly in kind and partly in cash, and for the purpose of such division the judgment of my Trustee concerning the properties and the relative values of same shall be binding and conclusive upon all persons then or thereafter interested therein."

I do not contend that the above clauses are sufficient to cover every situation. They are, however, a very good standard for a working basis in the majority of cases. Certainly they are sufficient so that a full consideration of them would be impossible within the compass of this discussion. I shall, therefore, attempt to cover briefly only some of the features presented.

The trustee has been given authority to execute leases which may extend beyond the termination of the trust. As I understand the law, where the trustee simply has general power to lease property, the lease for its entire term will be good, whether or not the trust comes to an end before such time, if, at the time of its execution, it was reasonable to anticipate that the trust would continue throughout the term of the lease. Here is a question of opinion based upon facts, in which opinion people may differ. There will be found cases in which it is clearly reasonable to assume that the trust will continue beyond the expiration of the lease, and there will be cases where it would clearly be unreasonable to anticipate such a happening. Certainly there is always a border line in these cases where it would be difficult for anyone to say what the duration of the trust may reasonably be anticipated to be.

I recently had a case in point. We were trustee for an estate which was to continue in our hands during the duration of the lives of seven children and of the survivor. A ten-year lease was under negotiation and the lessee wished us to have it approved by the Chancery Court on behalf of the contingent remaindermen, for fear the trust would terminate prior to the expiration of the lease. Since the youngest of the seven children was about thirty-five years of age and a difference of about twenty years was found in the ages of the youngest and the oldest, we convinced the lessee that it was altogether unreasonable to anticipate the termination of the trust prior to the expiration of the lease, and that, therefore, the lease would be good regardless of the time when the trust actually came to an end. A clause such as that above indicated would have greatly facilitated negotiations, and its absence will be more and more felt as the administration of this trust continues in the future.

Determination of Principal and Income

The power is given to the trustee to determine in its absolute discretion whether funds coming into its hands shall be deemed income or principal. In my opinion this clause, while desirable, does not accomplish all that it appears to accomplish on its face. I do not believe the trustee would be protected in a decision unless this decision were understandingly made upon an investigation of all the facts available. In other words, it is not an arbitrary discretion but an understanding discretion which is vested in the trustee. In Tennessee, where corporate stock is held for the benefit of life tenants with remainder to others and a stock dividend upon such stock is declared, so much of such dividend as is declared out of earnings after the beginning of the life estate is the property of the life tenant and so much as is declared out of earnings prior to such beginning goes to the remaindermen. In such a case, under the power conferred in the provisions set out, I believe the trustee will be justified in dividing the stock dividend after a full investigation into the corporation's books and records to ascertain how much of the stock dividend is attributable to earnings prior to the beginning of the life estate and how much to earnings since that time.

As a matter of fact, I do not believe that a trustee can be protected against its own negligence no matter what language is used. Regardless of the powers given it, it can only hope to be protected when it has exercised its utmost care and diligence.

The trustee is directed to charge all premiums on investments and to credit all discounts on investments against and to principal and not against or to income. This clause is a necessity in Tennessee. You are all no doubt familiar with the situation which it meets. Bonds very seldom sell for their exact face or par value. Their market price is usually somewhat above or below this figure. In investment practice, they are not sold upon their coupon rate but upon their yield basis to maturity. This yield is calculated by taking into account the premium or discount paid, the coupon rate and the date of maturity. In arriving at this basis a sum is periodically deducted from or added to the coupon rate, which sum, by the maturity of the bond, will compensate for the premium or discount at which the bond is purchased. Since a trustee, generally speaking, is under the obligation of winding up his trust with as much money as he started out with, especially where the matter is in his own control, the question arises as to whether in the case of a purchase of

securities at a premium it is not his duty to retain over the life of the security, from the coupon rate, a sufficient sum to recoup the premium paid.

Difference Between New York and Pennsylvania Rules

There is a distinct line of demarcation in the decisions on this question. Under what may be termed the New York Rule, such is the trustee's duty: The decisions hold that the shrinkage due to the payment of a premium is something that is plain and inevitable and it is the duty of the trustee to amortize this shrinkage out of the interest collected. Not only so, but the shrinkage due to this cause must be amortized, even though at any time after its purchase the security may be sold at a price greater than its purchase price. The other line of decisions, announcing what may be called the Pennsylvania Rule, hold that no such duty of amortizing a premium is imposed upon the trustee. These decisions are based upon the theory that the premium is paid not for the earning capacity of the security but for its soundness and safety, that such elements of the security are to the peculiar benefit of the remainderman, and that, therefore, the cost involved should fall upon him.

The question has not been decided in Tennessee by the Court of Last Appeal. In a suit in the Chancery Court the decision was in line with the Pennsylvania Rule. The case was not appealed for a decision of the Supreme Court because peculiar features of the will might have been deemed the basis of the decision.

Personally it seems to me that the New York Rule is the more sound. The only difficulty is that if a premium should be recouped out of the coupon payments a discount should be added to them and distributed to the beneficiary of the determinable estate, and no satisfactory method to accomplish this has been devised. If a bond is purchased at a discount, its yield at maturity is greater than its coupon rate, but the only cash which comes into the trustee's hands is the coupon. Of course, all securities could be turned into cash and reinvested periodically, and the excess of yield over coupon rate could then be paid to the owner of the determinable estate, but I cannot believe that anyone would recommend such a practice. It once fell to my lot to prepare an Act to be presented to the legislature for passage, the purpose of which was to define a trustee's duties on this subject. Inasmuch as I considered the New York Rule the proper one, it was naturally my purpose to incorporate this Rule in the Act. In fairness to the life tenant I had to undertake to protect him in cases where securities might be purchased at a discount. When the Act was finished I could not secure its approval by anyone in our organization, including myself, and so the matter ended. If you care to pursue this subject further, there is a very interesting and elaborate footnote in Volume 48 of American Law Reports.

Investment Powers

The trustee in the above provisions has been given power to invest in securities outside of those legal for trust investments. Here, also, it must exercise due care to be protected. In many cases the desirability of investments outside the restricted class cannot be open to question. If the trustee makes such investments without express authority, it, in effect, guarantees them. If there is a profit the estate gets the benefit, and if there is a loss the trustee must pay the loss. Of course, no trust company wants to be exonerated from losses to an estate due to ill-considered investments. Its reputation is too valuable. But it does not wish to have any bank examiner remark that securities held in a trust estate, though of unquestioned safety and soundness, are still unauthorized and a contingent liability of the bank. The effect of the above provision is to protect the trustee against losses where he has exercised due care in the selection of the securities purchased.

There has been inserted in the above quoted clauses a provision allowing the trustee to carry securities in the name of its nominee. You are all familiar with the many difficulties attendant upon the transfer of stock or other securities issued in the name of a trustee as such. There come times when securities must be sold immediately in order to avoid loss or in order to take advantage of market conditions. It is for this purpose that the clause is inserted. In our organization we have created a partnership to act as our nominee. By the contract creating this partnership it does not terminate upon the death of any or all of its members. This partnership has issued irrevocable powers of attorney to certain officers of the bank to sign certificates for it. When securities belonging to an estate are received, issued in the name of this partnership, they are immediately endorsed for transfer and placed with the securities of the particular estate to which they belong. In case of sale it is only necessary to have the signature of the partnership guaranteed and forward the security for transfer.

Sometimes, in addition to the powers set out, the testator wishes to include the express power to purchase or retain in the trust estate and to maintain a home for the beneficiaries. Probably such a power would exist under the provisions above quoted but it is usually desirable to limit the trustee's discretion to some extent by the wishes of the beneficiary in this regard, and for this purpose an additional clause will be needed.

While not included in the above quoted clauses, it is frequently necessary to authorize the trustee to

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Modern Safeguards Used in the Settlement of Estates and the Administration of Trusts

By Charlton Alexander

Vice-President, Mississippi Valley Merchants State Trust Co., St. Louis, Mo.

When most of the statutes on the administration of estates were enacted, the population was largely rural, and the settlement of an estate was a simple matter. Modern times have wrought great changes while the laws have lagged far behind. Thus, the statutory disposition of property cannot be the best plan for any estate. For some contingencies, such as the continuance of a "going concern," no statutory provisions exist.

Most men have a surprisingly vague idea of what to do with their estates after they are gone. To meet this situation, modern trust companies have established an estate analysis department whose duty it is to furnish a "Complete Estate Plan," that embodies a customer's hopes, ambitions, and fears for his dependents, and his resources for meeting these.

The modern way to safeguard the settlement of estates and the administration of trusts is to appoint a trust company as executor and trustee. There are innumerable legal and other safeguards which, in turn, surround the trust company's administration of the estate. Acting under such express contracts as a will, a voluntary trust agreement, an insurance trust agreement, a business insurance trust agreement, etc., the trust company is armed with effective means to withstand the dangers from within and from without that attack the estate.

THERE would be no need for modern safeguards if there were no modern dangers. Every new weapon of war, every invading disease, every parasite which would destroy the products of the soil, is promptly met by adequate means of defense.

Modern enemies of estates and trusts, products of our complicated social and business structure, are met by modern safeguards that have been and are being thrown around them by those of experience who have been commissioned to defend them. When an estate passes out of the control of him who has created and conserved it, it too often stands defenseless; an easy prey to the numerous and crafty parasites that would despoil it. Against that time strong safeguards should be planned and provided, to close in promptly and take the place of him who will surrender his charge.

Past and Present Conditions Contrasted

When most of the statutes on administration of estates were enacted the settlement of an estate was a simple matter. The population was largely rural, and a man's possessions consisted principally of his farm, together with his stock, implements, the contents of his barn and storehouse, and, possibly, some real estate notes secured by the property of his neighbors. Such laws still reflect this status in most states.

The administrator was directed to set aside meat and provisions from the storehouse for a year's support of the widow; the farm descended directly to his children, who were familiar with its management, and his widow was provided with a dower interest for life in the income therefrom; his surplus of grain or cotton was usually accepted at the supply store in

CHARLTON ALEXANDER

was born in Starkville, Mississippi, in 1884, moving to Jackson at an early age. He received his A.B. at Millsaps College in Jackson, and later attended the University of Mississippi, receiving his LL.B. in 1906.

He practiced law in Jackson, Mississippi, and from 1919 to 1927 in St. Louis, Missouri. In 1927, he was elected Vice-President and Director of the Liberty-Central Trust Company, St. Louis, in charge of its trust department, where he remained until March, 1929, when he came to the Mississippi Valley Trust Co. as Vice-President in charge of trust development work.

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payment of his account; one or more of the sons continued to live on the farm, and the widow was protected by her homestead rights.

The laws were complete enough then, but modern times have wrought great changes, while the laws have lagged far behind. The balance of the population now live in the cities, while the legislators continue to be elected according to acres, and not according to population. Large estates have been amassed, consisting of complicated securities of extensive corporations in distant parts of the country and of the world. Often there is an intricate business, built up around the personality of the dominant figure therein, and largely dependent upon his brain for its motive force. The modern administrator is faced with intricate financing, contracts and legal obligations, with many problems to be solved, and much property to be salvaged for the family. Broad experience, sound business judgment and ample means and authority are required of him who would step in and continue the fight, and, at the same time, put the estate through a process of complete liquidation.

Every Estate Goes Into the Hands of a Receiver

Every estate must go into the hands of a receiver every thirty years or so. The statutory settlement of estates and the procedure in receiverships is strikingly similar. The assets are collected together, and the best of them must be sold to pay debts, because debts of estates in modern times can only be paid with cash. Creditors are notified, claims are allowed, and, if the estate is insolvent, they are paid pro-rata. There are "receiver's" fees, attorney's fees and costs. The balance remaining, which usually consists of the poorer classes of securities, often must be sold for distribution of the proceeds to the "stockholders." They differ only in the facts that death and administration are sure, regardless of prosperity or adversity, and that, realizing the inevitable receivership of his estate, the owner can largely direct how it shall be managed and disposed of.

The State gives one a right to dispose of his property by will, and provides laws of descent and distribution for those who do not avail themselves of the privilege. The statutory disposition cannot be the best plan for any estate. If a man wanted to buy a suit of clothes, he would hardly go into a store that sells only one style and one pattern in clothes made in 1876! Furthermore, there are no statutory provisions for continuing the management of an estate under a trust. The estate *must be* liquidated and distributed during a period of time, usually crowded with confusion and uncertainty. But the law gives one the right to contract for a lawful purpose beyond the span of life, and behind that law stands the Constitution of the United States, against which greed and jealousy in many quarters cannot prevail.

When we speak of safeguards, we naturally inquire what there is to be safeguarded. If it is an estate, one usually thinks of the family savings, consisting of bonds and stocks and other property; but these are empty things unless there is back of them some one whom they can serve. An estate is only a means to an end—itself a safeguard of the peace and contentment of those within the family circle. The well-being of the wife and children, and of the children's children, is that with which the modern executor and trustee is primarily concerned.

Dangers from Within

It is equally true, as it is regrettable, that from within this very circle there spring many modern dangers which should be anticipated and provided against. The head of the family is usually aware of some of them, such as greed of relatives, contest or renunciation of a will, craving for luxury, extravagance, selfishness, dishonesty, carelessness, incompetency; but he is too often unmindful of the most formidable of them with which a trustee has to contend; such as divorce, avarice of a second husband, profligacy and greed of a son-in-law, speculation, old age and illness or death of personal fiduciaries, and many others, to most of which he will readily assent when they are called to his attention.

There are other dangers from within which assail an estate that will not be so readily admitted; such as his own lack of vision, incompetency, indifference, ignorance, lack of business judgment, procrastination, pride sentiment, and a false faith in the business judgment of a wife. These persistently stand in the way of a well-ordered estate, and require advertising solicitation and infinite tact and patience to remove.

Such dangers and obstacles from within are an outgrowth of the influence of the times, which has brought about a complicated social structure largely freed of the old restrictions and safeguards thrown around the family circle, and has stimulated a mad striving for achievement, which, in the mind of the average man, is measured by his Dun or Bradstreet report, and is so often advertised by the size and make of his motor car, and the gorgeousness of the apparel and jewels displayed by the female members of his family. These things are not only instrumental in recruiting the many dangers which come from within, but blind a man to the necessity of arranging for a wise and comprehensive safeguard of the means he has accumulated, without which such cultivated tastes, or even the simpler ones, frequently cannot continue.

Dangers from Without

Hardly more vicious, but much more numerous, are the enemies from without, that attack and despoil the *property* of an estate.

The head of the family, who has accumulated the property, is usually its best defender while he lives and is active, but after he retires he rarely leaves a lieutenant in his family competent enough to be promoted; and even if he does, such a successor could not know, anticipate and safeguard against the many dangers that assail an estate during liquidation and its subsequent management. Furthermore, since the estate, more than likely, would not pass entirely to him, it is more than probable that he would have little to do with the management of that part which passes to those who are not so gifted in business affairs.

These dangers that threaten the property of an estate are many. We can name only the most formidable of them: Complicated and exorbitant taxes that assail widows' estates, which the law, theretofore complacent, requires to be laid bare to the assessor; many needless costs, expenses and fees of administration, which in many cases are as large as 20% of the estate; expensive delays, antiquated methods, lack of proper accounting between the life tenant and the remaindermen, fraud, dishonesty, unjustified encroachments upon the principal, unsound investment practices, rapid changes in the safety of classes of investments, high-pressure salesmen of questionable securities, mingling of trust funds, sentimental retention of speculative investments, debts and legacies that must be paid, (requiring the forced sale of unlisted securities), partnership settlements (requiring the sale or liquidation of a profitable business), and shrinkage of income from improper amortization.

Cannot Be Definitely Foreseen

There are also dangers that neither the owner of the estate nor the skilled executor or trustee can foresee, but which, when they arise, are just as real and sometimes as devastating as those we have mentioned—changes in statutes and in taxation, fraudulent claims, such as those made by hypocritical sycophants who serve, and, deeming themselves inadequately provided for, file claims covering years of wages; serious illness, unforeseen calamities and misfortune, unfortunate marriage or divorce of a daughter, lack of development of business judgment in a son, and the educational requirements of the children and grandchildren. These can only be efficiently repulsed by passing on to a competent successor, who shall manage the estate, a broad discretion which would permit a free application of sound judgment to the situation as it arises.

Surprising Indifference

Most men have a surprisingly vague idea of what to do with their estates after they are gone. Pressing business has so stifled any inclination to consider it that they generally have only a hazy impression that they will leave a certain estate, and so much insurance, payable on forgotten plans. Frequently, officers of trust companies hear the expression—"I have done my part—If they lose it, it is their lookout." It isn't! It's *his!* Hasn't the family trusted him to plan for them? Such an attitude is a betrayal of a trust; he becomes a welcher and a quitter; he is unfair to those closest to him. Visualizing everyone's death but his own, he trifles and takes chances with the happiness and comfort of his loved ones, with only his own selfish inertia and indifference blocking the way to a certain and scientific protection of their future temporal needs.

Again, we frequently hear the expression "My wife is an unusual woman. I have left everything to her, and appointed her as executrix of my Estate." Because she manages on an allowance and spends it well (having nothing left over for the peak loads or emergencies), yes, because she *spends* well, month by month, she is unusual in her ability to *conserve* a life's allowance, paid to her at one time, and to intelligently invest it and plan against future pitfalls, of which she knows very little, and, therefore, is more

defenseless than if she knew nothing at all of such matters.

Foreseen Dangers Met by Known Defenses

The first and most important step that one should take in throwing safeguards around an estate is to consult an experienced specialist, who can readily detect the dangers, and who knows the remedies. The admonition—"You ought to make your will" is old-fashioned and wholly inadequate advice. It may be good as far as it goes, or it may not be the best plan to fit the situation. It doesn't even make a good start in safeguarding many estates. Such a person is like the old, lovable, country doctor, who swapped gossip and news, looked at your tongue and prescribed "calomel and quinine." The modern trust official, knowing that the wise planning of an estate is its best safeguard during future years, makes a thorough analysis, like the modern diagnostician, and prescribes those remedies which will most nearly guarantee an orderly, economic and safe protection to the family. There can be no reason why a man should not consult a specialist in those things most vital to him, when he does not hesitate to do so in matters of lesser importance.

Successful people get what they want through a definite plan. Nothing worth while is ever accomplished without a plan. If a man plans a bridge across a great river, his object is to contrive a means to put things across on the other side with safety. There must be no chances taken in providing every safeguard that skill and capital can devise; and so he employs an engineer, who figures the known and the probable dangers that may be encountered; fire, wind, floods, expansion and contraction, rust, vibration, peak loads, and the probability of an attack by all these forces at the same time. *Complete* plans and specifications are prepared with ample margins of safety, and these are turned over to experienced builders to be carried out. The result is a structure such as the great Eads Bridge, a monument to a wise plan and skillful execution, over which trusting thousands of people and tons of property will pass safely for generations.

"The Complete Estate Plan"

And so it is with an estate. A man's obligations to his dependents, considering the station in life to which he has accustomed them, are fixed, and it is desirable to fit the estate to such needs; but a surprisingly large number of men, informed in most things, know very little about modern methods of conserving what they have accumulated. Out of this has grown the establishment by modern trust companies of Estate Analysis Departments, whose duty it is to furnish a "Complete Estate Plan." This is prepared as the result of an intimate consultation with the customer, in which he details his hopes, ambitions and fears for his dependents, and reveals all of the resources which he has at his command for meeting them. We need not dwell upon detailed cases, because this subject has been admirably treated by others of experience, and is beyond the scope of this paper; but such an analysis, and the recommendation of such a plan, should always be from the standpoint of the best interests of dependents, even to the exclusion of the interests of the client and the trust company, where they conflict. This should be an inflexible business policy, to which there should be no exceptions. As an illustration; a trust company recently recommended—even insisted upon—the creation of an irrevocable voluntary trust that will save an elderly client $208,000, but will cost the trust company $30,000 through the loss of fees upon the administration of his estate.

Attributes of the Modern Trust Company

During a man's active lifetime he is on the offensive, building up his business and making his plans for larger operations. Suddenly, he is taken away; the offensive ceases, and the family is at once put upon the defensive while in retreat. Watchful and crafty forces see the advantage and press it. The orderly offensive, or the defense of a position, has its problems, but to protect lives and property in an orderly retreat is recognized as the more difficult. There is need of a wise leader.

The modern trust company in the South, as elsewhere, with years of experience and ample equipment and personnel, is best able to assume this responsibility. What individual or individuals could afford to bring to such a task, at the expense of the estate, such a corps of experts in all lines of fiduciary service? What estate could afford the cost of high-priced financial services for gathering information with reference to investments from every corner of the earth, and the experts capable of passing upon it; experts in tax matters, whose chief duties are properly to minimize taxes; experienced officers in the details of administration, allowance and payment of claims—in short, an organization always young, always virile, always alert, always efficient, whose sole duty is to know the dangers that assail estates, and provide means for frustrating them?

What individual is free from the risk of illness, accident, disease, old-age and death? What individual has had any experience in administration, since it hardly falls more than once in a lifetime to any one's lot to settle an estate? What individual, who is a member of a family, or a friend, is ever required

to give bond in his fiduciary capacity; and, if losses occur, what member or friend of the family is ever called upon to account? What individual is subject to periodic examinations by the Clearinghouse, State Board of Bank Examiners, or by Federal Examiners? How many individual fiduciaries have the financial background of a trust company behind every estate administered, or the same incentive to maintain a good name? Where can one find an individual expert with all of these qualifications, and yet whose charges are never more than those allowed by law to an executor, and frequently less?

"General Orders"

A complete estate plan takes the form of various related instruments—a will, a voluntary trust, an insurance trust, a business trust, an agency account—and these constitute the "general orders" which are passed on to the experienced corporate executor for his guidance in directing the affairs of the estate. They are express contracts, beyond the terms of which his authority cannot go, and without which there would be no delegated authority. They should, therefore, be most carefully prepared under the direction of the trust company.

In addition to the explicit orders, the documents should contain broad discretionary powers of investment, of encroachment upon the corpus of the estate, and in all other matters necessary to effectively meet those perils which neither the owner nor the trust company can reasonably anticipate.

It is safe to give this discretion. It is desirable. No general of any army ever carried out his orders more implicity than a trust company. To depart therefrom would be at its own risk and expense. The financial strength, reputation and good will of the trust company guarantee faithful performance; the lack of ability to forecast the future makes it wise.

The Active Defense

When such documents are turned over to a trust company for execution, they are most carefully analyzed, a legal opinion is obtained upon them and placed in the file, general instructions at once are issued to the heads of all departments who will come in contact with the handling of the estate, and thus the organization is mobilized for its protection.

If one has created a voluntary trust or an agency as a part of his complete estate plan, he has provided his trust company with the means for protecting against those aggressive forces which would skirmish against his estate in his old age, or after retirement, or in case he desires to travel or free himself of the responsibilities of estate management.

Death strikes. With the modern safeguards we have mentioned the family is in a strong position. There need be no financial worries added to their grief. The trust company takes charge, and the defense of the estate begins, while the family remains peacefully unaware of its problems.

Let us raise the curtain: All debts become due and payable in cash, and creditors are requested to file their claims; all claims are examined, audited, scrutinized, and those that are questionable are opposed without sentiment. The estate is inventoried, and the inventory is passed on to the investment department for a detailed analysis of every item. The analysis is passed on to the trust investment committee of the board of directors for final action. Definite decisions, based upon all available information, are reached on each investment. Speculative investments, not suitable as a permanent part of the estate, are usually sold.

Complete financial accounts and records are at once set up on the whole estate, and on each security therein, with means for furnishing periodic information on the management and operation of the various industries represented. Modern books are opened with experts in charge, equipped with modern bookkeeping appliances, and with systems for keeping definite accounts as between the various heirs of the estate, and punctiliously separating the income items from the principal. Modern tickler systems are used so that everything is done when it ought to be done. The securities are lodged in strong vaults without charge to the estate. Securities are never purchased from itself or any subsidiary in which it is interested, but from dealers at arm's length on the outside of the institution. The trust company passes on to the estate the discounts which it, as an institution, is able to secure. A revolving fund of investments is maintained to secure the prompt investment of all cash not immediately needed. Tax experts assume responsibility for the intricate reports that the law requires, and for the accuracy of tax payments. Expert audits are made of the accounts, and periodic, business-like statements are rendered of the administration. At all times the family is free to consult with the senior officers of the trust company, and is sure of a sympathetic hearing.

The Results

Let us consider some of the results of this scientific safeguarding of an estate.

If the estate has been planned wisely, cash from the insurance trust or the voluntary trust has been made available, in the discretion of the trust company, with which to liquidate claims, support the family during the administration, and pay taxes and costs by purchasing from the estate securities which it may have otherwise been compelled to sacrifice; the voluntary trust continues payments thereunder to the dependents, uninterrupted by the administration of the

estate; the business insurance trust has provided cash with which the surviving partner is compelled to purchase, at a fixed price the interest of the deceased partner in the business, the proceeds of which are paid into, and become a part of, the insurance trust funds for the protection of the family in accordance with the terms thereof; and thus the family is relieved of the embarrassment of having only one customer for the interest of the deceased partner, and the surviving partner is relieved of the embarrassment of having an inexperienced, but rightful, meddler in the company's affairs.

In most cases, heavy expenses have been saved the estate far in excess of the executor's fees; inheritance and estate taxes have been saved through the creation of a voluntary trust; income taxes have been saved by splitting up the family fortune in advance; administration fees, expenses and costs of the estate have been reduced. Two examples only can be given: An analysis of St. Louis estates, administered by individuals, covering a three year period, discloses the wholly unwarranted payment of $490,000 in taxes alone. A recent survey of St. Louis estates shows a saving of 4.7 per cent through the administration by trust companies over the administration by individuals in similar estates.

Instead of turning over to inexperienced hands that estate so difficult to accumulate, and which stands between the family and want, the conservation and safeguarding of the estate continues for the time specified under the testamentary trust, the voluntary trust and the insurance trust.

Under such trusts, the discretionary powers granted to the corporate trustee show a most beneficial result. Frequently the decision is left with the trustee as to the worthiness of a beneficiary to receive his share. Such discretions are exercised, freed of sentimental impulses, but with a sympathy and liberality commensurate with their needs. Since sentiment and material love play no part in such a trust, there is no opportunity to withdraw large sums under the guise of proper encroachments; but when the right to withdraw principal is given, it is as easily obtained as cashing a check.

Safety of Trust Estates

Trust officers are often asked as to the safety of trust estates in case of the failure of the bank. Aside from the record of the trust companies of the United States in this regard, such persons are reminded that the trust funds in the trust department are, and must be, always kept separate from the funds of the institution; that they are handled only by the trust department, which is not directly concerned with the commercial business affairs of the bank, but has its own vaults with its own officers in charge thereof; and that, therefore, its trust funds are as securely protected against any possible encroachment thereon, or use thereof for the purposes of the bank, as though it were a disconnected institution in another part of town.

The conservation of trust funds is a subject which receives the most painstaking consideration. The trend of securities must be carefully watched. The change of sentiment with reference to certain municipal and institutional investments will be recalled. As an illustration, it would be interesting to consider the predicament of a trustee who invested the estate under his care in some of the legal investments under the Missouri statutes. Farm mortgages were once considered the prime investment for trust funds, and many estates, under the protection of the statute, were also invested in drainage district and road district bonds, joint stock land bank bonds, and others too numerous to mention. These investments are still legal, and the uninformed fiduciary could still lose half of his estate, at the time of the original investment, by following blindly investment statutes of some states, and still remain blameless under the law.

Further to illustrate: recently we were consulted by a widow to whom an estate had been left outright. From time to time she had taken the advice of a good firm who dealt in church bonds, drainage bonds and bridge bonds; and in ten years her estate consisted of nothing else. They had purchased the bonds because they believed in them. From time to time they had been the popular forms of investment. They had recommended one thing at a time without an analysis of her estate, and, therefore, without any idea of diversification. She bitterly blamed that firm; whom she should have blamed was her husband, who had left everything to her, and had sent her out, inexperienced as she was, either as a beggar for financial advice from those whom it had cost years to acquire the necessary knowledge, or as a trader at arm's length with dealers, who had seized the opportunity to unload securities carrying the largest margin of profit.

Goes Beyond Its Duty

The duties of a trustee, according to law, are to display the skill and vigilance which a prudent man of discretion and intelligence would use in the conduct of his own affairs. What a sorry plight the trust funds of any trust company would be if they followed literally such a course! The highest degree of skill and vigilance that the modern trust company can command is applied to the millions of trust securities under its charge.

Every year trust companies have minor items here and there which are charged off voluntarily to its own account and not because they are legally re-

quired to do so. The protection of a good name, which is the most valuable asset, furnished the incentive.

A trust company, as an individual, could make legitimate profits, by reason of its control of such large funds. It never yields to the temptation, because there is no temptation. The character and training of the men in charge of trust departments guarantee that.

Advances are frequently made to trusts to meet monthly income payments to widows and others, and to permit of the prompt settlement of an estate. This it is not required to do; it could refuse, but it is important that large savings be effected in this manner for the benefit of the estate when there is no real risk of loss to the trust company.

Sometimes a bank risks both its own finances and reputation in keeping a business going so as to sell it as a going concern, rather than fail to face the responsibility, as it would have a right to do and sell it at forced sale.

Sometimes, at rare intervals, a loan that has been made for a trust estate becomes in arrears. Unforeseen reverses have been suffered by the borrower, and the property must be foreclosed. I have yet to hear of such property being bought for the account of the estate. The trust company, if necessary, purchases it, pays the full principal and accrued interest into the estate, and then, if there is any loss on a sale of the property, it is voluntarily and without compulsion absorbed; if there is a profit therefrom, it is turned into the trust estate.

Trust companies do not wait always for the dangers to arrive; they anticipate them. It is not generally known that trust companies carry expensive blanket insurance against losses from the purchase of forged duplicate securities, mortgage loans or bonds.

If there are any reasonable safeguards which can be thrown around estates, which have not been utilized by all progressive, modern trust companies, I have yet to have it called to my attention.

Already, many aggressive trust companies are considering, and some are installing, plans for guaranteeing trust investments made by it, and for issuing participations in investment funds having a wide diversification.

There is no business that is so open to criticism as that of a trust company. Any dereliction, however slight, is always magnified many times by the individual who deals with it. A trust company cannot be too careful. Its good name and reputation for fair dealing at all times must be scrupulously protected. It is, therefore, with pride that I, a Southerner, note that the trust companies of the South are throwing around the estates committed to their care every modern safeguard that modern ingenuity has devised.

Proper Administrative Features in Southern Wills

(*Continued from page* 61)

carry on the testator's business either indefinitely or pending a sale. If the testator is the sole owner of the business, or if it is a partnership, such a power is necessary to protect the trustee in case an immediate sale or liquidation is not had. In the absence of such a power conferred, the business is operated purely at the trustee's risk. If profits are made they go to the estate and if losses occur the trustee must pay them. However, in my opinion the best plan for the testator to pursue in regard to his business is to provide, beforehand, some arrangement under which it will be sold for an adequate price at his death. You are all familiar with partnership insurance trusts, stock purchase plans, and the amortization of the business of which the testator is the sole owner.

Item Four: In this item the testator should nominate the executor of his will and should provide that during the administration of the estate all powers conferred upon the trustee are also given to the executor. A clause to accomplish this purpose is as follows:

> "During the period of the administration of my estate by my Executor it is expressly authorized and empowered, as such, to join with the Trustee in the exercise of all powers given the Trustee hereunder and to the extent it, as Executor, has sole custody of any property, it is hereby given with respect to such property during the period of the administration of my estate all powers herein conferred on and that may be at any time exercised by the Trustee hereunder."

In this paper I have tried briefly to enumerate some desirable administrative features for wills. The question naturally arises as to what we are going to do about it. We cannot, ourselves, draw wills or dictate what is to go in them. Frequently wills naming us as executor and trustee are prepared without consulting us and without our knowledge. We can only say that our policy is to make our suggestions known to attorneys wherever the opportunity offers. In the majority of cases we find that the attorney is glad to have all the suggestions we can offer and is glad to incorporate in the instrument provisions which have in our inexperience allowed a more satisfactory and less expensive administration of the estate.

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PROCEEDINGS

FOURTH SOUTHERN TRUST CONFERENCE

Charleston
South Carolina

APRIL 17–18, 1931

TRUST COMPANY DIVISION • AMERICAN BANKERS ASSOCIATION

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THE FOURTH Southern Trust Conference

THE Fourth Southern Trust Conference was held at the Francis Marion Hotel, Charleston, South Carolina, on Friday and Saturday, April 17-18, 1931.

With some 200 leading bankers and trust officials in attendance, the growing interest of the financial institutions of the ten Southern States in developing corporate trust service was actively demonstrated.

The presiding officer at the first session of the Conference was Gilbert T. Stephenson, President of the Trust Company Division, American Bankers Association, and Vice President, Equitable Trust Company, Wilmington, Delaware. He spoke of the fact, as shown by probate court records, that the South was not yet on a par with other sections of the country in the making of wills and use of trust companies, and stressed the duty of trust men and bankers to sell the trust idea to their communities and to give adequate trust company service to the people of the South. Mr. Stephenson's remarks in full are contained on pages 2 and 3.

The second and third sessions of the Conference were presided over respectively, by R. M. Sims, Chairman of the Executive Committee, Trust Company Division, A. B. A., and Vice President, American Trust Co., San Francisco, California, and C. Alison Scully, Chairman, Committee on Insurance Trusts, Trust Company Division, A. B. A., and Vice President, Bank of Manhattan Trust Company, New York.

R. Goodwyn Rhett, Chairman, Peoples State Bank of South Carolina, Charleston, welcomed the visitors to the city. He sketched briefly the history of Charleston, which, he stated, was the focus from which the Anglo-Saxons settled that section of the South, and also outlined some of the natural beauties of the region. In speaking of the Magnolia Gardens, which the delegates were invited to visit, he said, "the whole country is ablaze with color—the drive to Magnolia is over a bridge and through a bower of trees hung and festooned with moss and all about is a wonderful picture."

On Friday evening, the Conference Banquet was held, the principal speaker being Rome C. Stephenson, President of the American Bankers Association.

Mr. Stephenson spoke of the great opportunity for service to the community offered to the man who works with a trust company or bank. "Every service that he performs lights a light on someone's pathway," he said, "and when he has passed from life he will leave a row of lights showing his passage so that all who come after may observe his work and know that he passed."

Mr. Stephenson cautioned the smaller bank against beginning the operation of a trust department unless it has such expert assistance as will enable it to conduct the department in the proper way. He expressed the hope that the larger banks would devise some means whereby they might offer the smaller banks the benefit of their experience in the field.

MAKING The South
Trust-Company-Conscious

By Gilbert T. Stephenson

President, Trust Company Division, American Bankers Association
and Vice-President, Equitable Trust Company, Wilmington, Del.

Gentlemen, in formally opening the Fourth Southern Trust Conference, will you let me take time to express one thought that is uppermost in my mind about Southern Trust Company service?

Will-Consciousness of the South

It is the immediate and pressing duty upon us Southern trust men and Southern bankers and trust company executives to make the Southern people more "will-conscious," and more "trust-company-conscious." Some of you will perhaps remember that at our First Southern Trust Conference, the one that was held at Chattanooga three years ago, I spoke on the "will-consciousness" of the South, and reported the results of a state-wide study of the probate court figures of North Carolina that had just been completed, and reported to you that as revealed by that study only one person out of four with an estate in North Carolina left a will.

Since then I have conducted other similar studies, one in England and another in the State of Delaware, and have had the benefit of similar studies that have been made in Washington, D. C., in Philadelphia, in Salt Lake City and in the State of Ohio, and I am able now to give you some comparative figures.

We find that in the State of Ohio just a little less than one-half of the people with estates make wills, 456 out of 1,000. In the State of Delaware, or rather in the county of Newcastle in which the city of Wilmington is located, exactly one-half the people with estates make wills. In the city of Washington and in Philadelphia County which embraces the city of Philadelphia almost exactly two-thirds of the people with estates leave wills.

Placing these figures alongside those of North Carolina, one out of four in North Carolina, we see the extent to which the South, if North Carolina may be taken as typical of the South, is still not will-conscious.

During the past two or three years I have also been making a study of the trust company consciousness of different sections. I have made a first-hand study of the subject in England and in Delaware and also in North Carolina. I found that in Newcastle County, Delaware, 114 out of 1,000 estates, or one in nine, were in the hands of trust companies and banks. I found that in England 172 out of 1,000, or one out of six, are in the hands of trust corporations. I found in North Carolina only 35 out of 1,000, or one in 29, was in the hands of trust companies and banks.

I think, gentlemen, that we may take North Carolina as a typical southern State. I think perhaps under the leadership of the Wachovia Bank & Trust Company, which has been a pioneer in the trust field since 1892, and under the inspiration of Colonel F. H. Fries, who has been the head of that organization for nearly forty years, and under the leadership of Mr. A. H. Eller, who has been the one and only trust officer of that institution and who has honored this conference today, North Carolina has made quite as much progress in becoming will-conscious and in becoming trust-company-conscious as the average southern State, and perhaps more.

Gentlemen, I am mentioning these figures of will-consciousness and trust-company-consciousness because I am aware that I have the opportunity now to speak directly to a group of bankers and trust company executives as well as technical trust men and I want particularly to call the attention of the bankers and trust company executives to the extent to which the South is still not will-conscious and the extent to which it is still not trust-company-conscious.

Two Sets of Duties

In the making of the South will-conscious and in the making of it trust-company-conscious, there are two sets of duties, gentlemen. One of those sets of

GILBERT T. STEPHENSON

is a native of North Carolina where he was born forty-five years ago. After receiving his M.A. and LL.B. degrees from Harvard, he practiced law from 1910 to 1918. From 1918 to 1929 he was a Trust Officer of the Wachovia Bank & Trust Co., Raleigh, N. C. Since 1929 he has been Vice-President of the Equitable Trust Co., Wilmington, Del.

Mr. Stephenson is President of the Trust Company Division, A.B.A. He has presented a number of helpful addresses at trust conferences, and has been one of the most prolific contributors to trust literature. He is author of "Living Trusts," "Wills," "English Executor and Trustee Business," "One Hundred Questions and Answers About Wills, Estates and Trusts" and "One Hundred Questions and Answers About Life Insurance Trusts," and co-author of "Guide-posts in Preparing Wills." His researches have included an intensive study of the probate court records of North Carolina and of the costs of the settlement of estates elsewhere. He is now engaged in preparing a book on "American Trust Business."

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duties devolves upon you administrative trust men, trust officers, assistant trust officers, heads of trust departments and of the divisions of trust departments. Another set of duties and quite a distinct and separate set of duties devolves upon you bankers, you bank presidents and trust company executives and vice-presidents in charge of trust departments. The duty that devolves upon you trust men proper is to sell the trust company idea, to sell it through proper advertising, through proper solicitation, through proper educational campaigns, and last, and most important of all, through proper service, because nothing can take the place of proper trust administration.

You will be interested I think in knowing that the Executive Committee of the Trust Company Division has just authorized the launching of another nation-wide trust educational campaign, which it is anticipated will be even more extensive than the one that was launched, and so successfully prosecuted until five or six years ago. When that campaign is launched and when it gets under way the South of all the sections of the country should take full advantage of all the benefits to be derived from that campaign which is to be under the leadership again of Mr. Francis H. Sisson.

Duty of Trust Company Executives

But I am more interested this morning, gentlemen, in the set of duties that devolves upon the bankers and the trust company executives than I am in the duties that devolve upon the trust men proper. This whole conference is going to be devoted to the duties that devolve upon the trust men proper.

What are the duties that devolve upon the bankers and the trust company executives? It is to give adequate trust company service to the people of the South. If it is true that the banks and trust companies of the South can render and will render a trust service that is superior to the trust service that can be rendered by individuals, then there is a duty upon the executives of the banks and trust companies of the South to give an adequate service to the southern people.

That involves several things, gentlemen. It involves a careful analysis of the trust field of your institutions. I have no doubt that there are executives here this morning whose institutions are in the center of trust fields that are yet unexplored. I have no doubt there are executives here this morning who are undertaking to develop a trust business in a community that is already preoccupied by other trust institutions. And the duty devolves upon the executive of the bank or trust company to make a frank, candid, courageous, fearless analysis of the trust field in which he is operating. I know southern communities in which two, three, or four trust departments are undertaking to operate where there is not more trust business than enough for one well-manned and well-equipped trust department.

Don't you see the folly of that, gentlemen?

I know there are sections of the South that are not yet accessible to any well-equipped and well-manned trust department. I know furthermore that the meeting of the trust demands of the South will mean the development of a special sort of trust company service in this section of our country.

We must learn how to handle real estate in trust companies to an extent that is not true of any other part of our country, except perhaps the great farming section of the Middle West, and you men who come from agricultural sections of the South know that your real estate departments are coming to be

(*Continued on page* 21)

THE MEANING of Trust Company Service

By James H. Perkins

President, City Bank Farmers Trust Company, New York, N. Y.

The basic function of trust service is the care and management of property.

Having developed to a high point, the operating efficiency and the new business promotional sides of trust service, it is now time to lay the major emphasis upon this basic function.

The ideal investment policy is to obtain diversification through investment in bonds, preferred stocks and common stocks, studying each item constantly, shifting the proportions with changing economic and money conditions.

Smaller trust funds can be given the same quality and character of management as is given to a very large accumulation of wealth, by means of the "Co-Mingled Fund."

In carrying out its obligation to the trust funds entrusted to its care, the fiduciary finds itself involved in an obligation to society. The large blocks of securities sometimes held in trusts makes it necessary for the trustee to make decisions affecting the interests of large corporations and important industries. Hence it is important for the future good of the country, industrially, socially, politically, that fiduciaries have the necessary basic knowledge for making their decisions.

The future economic development of the world needs the trust industry. There is a gap in the economic structure which has not yet been filled and which the trust companies are qualified to fill. The individual who has had the benefit of the carefully thought out and diligently protected agencies of the savings bank and the life insurance company, when he desires to invest his accumulated surplus, should be able to get from a trust company the same quality and character of management as is given to large fortunes.

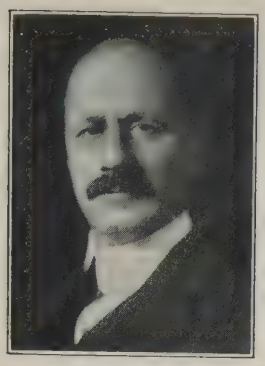
THE growth of trust business during the present century has been phenomenal especially since the Federal Reserve Act granted trust powers to National Banks. The prosperity of the past decade has also been an important factor.

Because we have moved ahead so fast in recent years, it seems to me wise for us to stop at this point and take account of stock. The time has certainly come when we ought to give the most serious thought as to how we are carrying out the responsibilities which we have undertaken. The present condition of the country is giving our methods a thorough test, and we ought to consider well how we are meeting it. Perhaps of even greater importance is the study of our position in relation to the problems that will come to us as a result of the great development that I believe will occur in the trust business during the next ten or twenty years.

The First Trust Company

Although trust companies have seen their greatest growth in modern times, there have been corporate fiduciaries in existence for many years. In fact, the first trust company in this country was incorporated over one hundred years ago, on February 28, 1822. In spite of its title of a fire insurance and loan company, its directors early saw the importance and significance of the trust functions granted to them by their charter and in their first announcement to the public they devoted approximately eighty per cent of the space at their disposal to the trust rather than the insurance service which they offered. The trust platform contained in this first announcement to the public read as follows:

"The public will readily perceive that the advantages of this Company to protect property for the



JAMES H. PERKINS

was born in Milton, Mass., Jan. 11, 1876. After graduating from Harvard in 1898 he was connected eight years with Walter Baker & Co., Ltd., three years with the American Trust Co. of Boston as Vice-President, six years with the National Commercial Bank of Albany as Vice-President and then as President, five years with the National City Bank of New York, first as Vice-President and then as Executive Manager. In 1919 he became a member of the banking firm of Montgomery and Co., New York. Since 1921 he has been President of the Farmers' Loan and Trust Co. of New York, now the City Bank Farmers Trust Company.

He is also President of the Detroit, Hillsdale & Southwestern R.R. and a director in eleven corporations. In 1914 he was President of the New York State Bankers Assn. and is at present a member of the Executive Committee of the Trust Company Division, A.B.A. During the World War, he served in the A.E.F. as Asst. Chief of Staff and as Lieut. Col. of the Q.M.C.

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benefit of orphans or others, or to answer any special purposes, either of public or private nature, are far greater than those of any individual executors or other trustees, who are always liable to casualties which no foresight can guard against:—as the numerous and frequent applications to the Court of Chancery for filling up of vacancies occasioned by death, insolvencies, and other causes, most incontestably show; and the expense of such proceedings often swallows up a great part of the TRUST estate. By placing such property in the charge of this Company which has continued succession, there can be no danger whatever of any such casualties; as all such property will be invested either at discretion, in the most beneficial manner, for the sole advantage of the party conveying the same, or invested as the party may direct, within the strict provisions of any such trust."

There can be no question of the soundness of this statement not only in 1822, but today as well. One hundred years ago the courts were full of cases where loss had been occasioned to estates and trusts due to the death, illness or dishonesty of the individual fiduciaries. We all know that the same misfortune can and does happen today and that the permanent character of a trust company can be an inestimable safeguard.

During the nineteenth century the development of the trust business was slow but with the turn of the century changes in conditions accelerated the growth. Intricacies of procedure, legal and otherwise, tended to deter individuals other than lawyers from undertaking trusts. The organization of trust companies permitted them to take care of the mechanical and secretarial features of trust administration much more readily than could individuals, and lawyers found, as time went on, that there were distinct advantages to themselves as well as to their clients in having trust companies attend to these details, leaving only the truly legal questions to attorneys.

The first trust platform announced in 1822 emphasized continuity and the ability of the corporate fiduciary to properly satisfy the courts as well as the creator and the beneficiaries of trusts.

Technical Administration Highly Developed

It seems to me that the trust companies of the country have stressed these phases of trustee's work and along with it they have emphasized the development of trust business. It cannot be gainsaid that trust companies carry out their mechanical operations with real ability and efficiency and are alert to organize and install new methods as they are developed. If any trust company or trust department is not efficiently run in this respect, there is no reason why it cannot be. The Trust Company Division of the American Bankers Association has undertaken a series of educational programs which have been of the utmost value. Members of the Association owe a great deal to the committees which have worked on the various problems that have confronted trust companies. It is possible today for a new trust company or a bank which desires to install a trust department to obtain from the Association all the necessary information as to how to set up and run their books, how to manage their vaults, how to install cost systems, etc., etc. At least one-third of the addresses at the Twelfth Mid-Winter Trust Conference held in New York last February related to these subjects and nothing but the highest praise is due those who have made this efficiency of operation possible.

Ways and means of promoting trust business are also an important topic of conversation at all gatherings of bankers. Another third of the addresses at

the recent Trust Conference in New York were devoted to this subject. Trust company men have freely interchanged ideas on developing business and have made their opinions available to all.

Time for a New Trust Platform

So it seems to me that since the beginning, the trust organizations of the country have constantly and ably developed their industry—if it may be so called—along the lines of effective operations, technical administration and promotion. This is all to the good, but I believe that there has not been sufficient stress laid on the true fundamental of trust service—the care and management of property. Many of my friends in this business, as well as my associates and I, believe that the time has now come when we should state what might be called a new trust platform—a restatement of our reasons for existence with emphasis on our basic function.

Sacredness of Fiduciary Relationship

A fiduciary relationship, regardless of the legal form it takes, is one of the most sacred relationships known. I believe that no man and no group of men,—called an institution or a trust company if you like,—has the right to accept a trusteeship if that man or that group of men has any idea senior to the thought that he, as trustee, must always care for and manage the property entrusted to him solely for the benefit of his trust and the people related to his trust. The group of individuals who accept the sacred relationship of a trustee must not let any other phase of business, whether it be for their own individual profit or for the profit of their stockholders, take precedence over the business of effectively caring for and managing the property of trusts for the benefit of the trust and the beneficiaries of the trust. Their interests can never be adverse to the trust but must always be identical with its well-being.

They must realize that the trust business means the care and management of property first and they must openly recognize that although property is cared for and managed by trust companies today under various and sundry forms for the purpose of obtaining different results for different people, the *management and care* of that property come first. It is immaterial whether the form of mechanics under which property is managed is through a will or deed or agency account or some other contract. We are asked to take over property either because the donor believes we are more competent to handle it than he is himself or because he trusts us to look after the interests of his family after he is dead. We may know all about how to persuade a man to create a trust with us, to safeguard his securities in our vault, to collect and pay the income as directed in the trust instrument and to file a formal accounting at the termination of the trust estate, but if we do not know how to manage the property entrusted to our care, all our elaborate mechanical structure will go for naught. In this sentence I have tried to state briefly the real thought of my talk.

Average Results Better

Partially due to the fact that the men who are handling these trusts are connected with finance, and partially due to the competitive advertising which has been done, the public at large credits us with a more profound knowledge and greater skill than it is possible for us to possess. In consequence we must be very careful in the statements that we make about what we can accomplish in this line. This is a difficult matter to control because men who are competing for business, and particularly young men who regard their success entirely by the amount of trusts that they bring in in any one year, are apt to lack conservatism in their statements, and be unduly enthusiastic about the results that will be accomplished by their organization. It is hard for many men to realize that the grief that comes in their work often takes years before it shows up. As a representative of the oldest trust company in the country, I am in a position to see how troubles can materialize, and to assure you that the difficulty of taking action that will prove wise over a long period of years is great. It is impossible for the trust officials of the country to be always right, of course, but I believe that it is possible for them to produce results that will average a good deal better than those which are achieved by the individual acting either for himself or as trustee for other people. If this is not possible, we are not justified in appealing to the people for their confidence.

Years ago it was the habit of all trustees to take funds and invest them solely in high grade government and railroad bonds and in mortgages. The idea was that this was the surest way of conserving the property and that any venture into other forms of securities such as common stocks was nothing but rank speculation. Strangely enough, it turned out over a period of years that these investments in fixed income bearing securities were not entirely free from speculation themselves. Professor Irving Fisher has pointed out that in the last thirty years the purchasing power of the dollar has decreased enormously so that the dollar in 1920 bought about one-quarter of what could be purchased with the same dollar in 1896. The result was that the good 4 per cent railroad bonds which had been placed in trusts at approximately their par value early in the century, by 1920 yielded an income the purchasing

power of which was greatly reduced. Even in 1931 despite the drop in commodity prices, the purchasing power of the dollar is still very much less than in 1896. This has been due to changes in business and economic conditions not only in this country but throughout the world. The trustee who did not recognize these changes and the trustee who was not able enough to change his policy of investment to meet such changes has failed in his obligation to his trust.

Principles of Diversification

None of us can possibly know for certain how conditions will change nor can we be absolutely sure when it is the right time to buy long term bonds, or short term bonds or mortgages or preferred stocks or common stocks; nor can we definitely tell when it would be most advantageous to lend property in our care to any particular industry or to place it in any one enterprise as a partner. We do know, however, that the principles of diversification and constant review, in so far as proportions and the individual items are concerned, will over a period of time produce satisfactory results. Experience would lead us to believe that the ideal policy is to diversify trust investments both as a lender in various types of bonds, as a special partner in certain preferred stocks and as a general partner in certain common stocks. This plan, plus the ability to study each item constantly and to shift the proportions with changing economic and money conditions, seems to produce a sound and elastic investment formula. Naturally, the ideal result can only be approximated but the more flexible our policy the more closely we should be able to reach it.

I also think we will all agree as trust men that to do our management job properly we have got to be able to give the same quality and character of management to the smaller trust fund that we believe we are able to give and in many instances have given to a very large amount of accumulated wealth. If we know that it is best for the smaller amount of wealth to be managed exactly as the large fortune is managed, it is up to us to give that management if it can be given.

Co-Mingled Trust Funds

There is no question in my mind but that this can be done. In fact it is being done today by at least six trust companies through varying types of co-mingled funds. There are the Guaranty Trust Company and the Irving Trust Company of New York, the Brooklyn Trust Company, the Old Colony Trust Company of Boston, The Equitable Trust Company of Wilmington, Delaware, and ourselves. What set-up of such a fund is the best is largely a question of mechanics and local law and it is not my purpose today to discuss those subjects. But these six or more trust companies are achieving results today. By mingling the funds of small trusts for the purpose of investment they are definitely able to give these trusts both broad diversification and constant study and work by the best brains they can command. In this manner a smaller trust is managed exactly like a large one, because for investment purposes it becomes part of a large one, and all the disadvantages of the segregated trust are overcome without in the least affecting its independence as a separate entity. One of the best features of the mingled fund is that it does not imply the slightest change in the investment policy of the trust company which adopts it. Although most of such funds now in existence give the management the broadest discretion in making investments, there is one that I know of that is specifically limited to "legal" bonds. There is another that is confined to common stocks. In some States the mingling of trust funds is authorized by statute and in those communities trust companies have been very successful in mingling mortgages. In brief, the mingled fund can be made to fit almost any perconceived investment theory. I think that it is only by adopting this idea that trust companies are going to put themselves in a position to meet the constantly growing demands upon them.

Applying the Insurance Principle

In fact, it would seem logical that this should be the case. History points to it. The progress of insurance companies in the last twenty-five years has been nothing short of phenomenal. They were at a low ebb after the Hughes investigation in New York, both as to their own morale and as to the goodwill of the public. What has caused the change to their present position of success and confidence? Partly, of course, the fact that they sell a most important and valuable service, but more than that, I believe, because of their capable management. And this management is based on the insurance principle of spreading the risk. They have been able to diversify their investments because they are large and they have become larger because their ability to diversify brought public confidence.

I think we must apply the insurance principle to our trusts. It can be done through co-mingling. It will result in the best possible service to the people and will increase their confidence in our ability to handle their property; and, incidentally, public confidence is the best new business department any of us can possibly have.

"Fiduciary" Represents Capitalism

There is another phase of our problem that has long given me much concern. Perhaps I can best express it in this way. It seems to me that the very word "Fiduciary" and everything that that word means represents capitalism. Our first thought is the care and management of that property for the benefit of our trust. In properly carrying out that obligation we are bound to find ourselves involved in an obligation to society. If the power which we have acquired through ownership is not directed through the proper channels that very property which has given us such power may suffer with a resulting loss to the beneficiaries and the remainder interests of our trusts. I cannot doubt that there are many industrial and other companies in this country whose securities are held in such amounts by corporate fiduciaries that the latter represent a highly important minority if not actual control of the company. If we conclude that conditions in a certain industry are such that securities representing that industry, or one or more corporations engaged in it, should be sold out of our trusts, we will have the heavy responsibility of attempting to do so with the least possible injury not only to the trusts but equally to the companies in question.

Conversely, and especially to the extent that our investments in industry consist of partnership interests, we may find it necessary to exercise a voice in the management in proportion to our interest. This is especially true in cases where, as testamentary trustee, we receive large blocks of stock which, for one reason or another, we think it wise to retain in the trust. I need only mention in illustration such problems as the Youngstown-Bethlehem merger and the dispute which occurred in the Standard Oil Company of Indiana some two years ago. We must have the necessary knowledge for the right foundation for our decisions. If we do not act wisely, it will be bad for the future of the country, industrially, socially, politically, and in every other way.

Constant Interchange of Information Needed

A few of my friends met with me at the time of the Mid-Winter Conference in New York and we discussed this thought particularly in relation to the exchange of ideas which to me is one of the most necessary elements in the problem. As an example, a man in Dallas or Oklahoma City would normally have more of a feel of the oil situation than a man in New York or Chicago or Atlanta. Presumably, the man in Detroit or Akron should know more intimately the automobile or rubber situation than the man in Charleston or Boston or Richmond; and so on through all the different industries, especially when they are concentrated in particular localities like the automobile industry in Detroit. It seems to me that a constant exchange of ideas and knowledge on the subject of management is vital to our business. This is true also of the financial situation. It is very difficult for the man who is located a long way from the financial centres to know what is going on. It is also possible that the man in the financial district may be too close to the day to day operations in the markets and without help he may not see the true condition of industry and of money.

A Great Opportunity

I think there is every reason to believe that the future economic development of the world needs the trust industry and if I am not mistaken I believe we have an opportunity which is one of the greatest in financial history to fill a gap which today, because it is unfilled, is causing more damage and trouble than almost any other sin of economic omission. Many trust organizations today, through their ideals and knowledge, may be well qualified to take over large amounts of accumulated wealth for the purpose of management. As I have said, I believe there is a far greater place in the economic structure of the country for the trust companies than simply that which they are filling and even that which they will be able to fill with normal development as they are organized and operated today. I believe that the trust companies must be organizations not only geared to take over large amounts of accumulated wealth for the purpose of effective and careful management under some one of the many and various forms for the purpose of administration, but also that the trust companies must be so organized and operated that they may be the agencies with which any individual may work constructively during the entire period of his usefulness for the purpose of creating his own estate.

I have great confidence in the men of America and I think it is fair to say that the first thing the average individual does when he gets a little bit more money than he absolutely needs to pay his immediate expenses, and the first thing certainly that he should do, is to place that money in a savings account. With a little backlog he is protected against any immediate trouble such as sudden illness, etc. If he has gone a little beyond that point his mind turns immediately toward protection to those dependent on him in the event of anything happening to him, such as total disability or sudden death, and he thinks very properly and rightly in terms of life insurance. If he has crossed that bridge and if he then continues through his ability and efforts to accumulate a certain amount of wealth, he is forced, if that additional wealth is to be of value to him to put it to work.

In his attempt to put it to work carefully and

effectively he, of necessity, must jump from two of the most carefully thought out and diligently protected agencies in the world—the savings bank and the life insurance company—way over into the unknown field of becoming an investor. That man should be able to come directly to a trust company and be given the immediate opportunity to have the same quality and character of management for his small amount of wealth that the trust companies are able to give to the large fortunes. This is the surest way to keep him from losing his savings through undesirable, if not actually fraudulent, investments. Later, as his accumulations increase, his affairs should be analyzed and the full weight of the trust company's administrative and mechanical service placed at his disposal.

In concluding, I urge upon you the idea that you are undertaking a very difficult piece of work. You must approach it with a spirit of seriousness and always remember that your chief duty is to care for and manage the property which is entrusted to you solely for the benefit of the account and those individuals related to it. You must not neglect the importance of your position and the power placed in your hands towards society. There is no alibi for carelessness and stupidity. If the work which we have undertaken is to be conducted in a solemn spirit of trusteeship to our clients and our community and a spirit of co-operation among ourselves, we can become one of the great constructive and conservative forces of the country and ample regard will result. If any man is not willing to subscribe to these principles his place is not in the trust business of the United States.

DISCUSSION

Employment of Attorney for the Estate

MORGAN S. MCCORMICK, (President, Guardian Trust Co., Miami, Fla.): Mr. Chairman, I represent possibly the youngest trust company in this conference. I should like Mr. Perkins to add a few words as to what the policy of his company is in legal matters, whether their own attorneys look after the legal end of trusts, or whether those attorneys who are possibly responsible, or from whose offices the trusts may have come, handle the legal end of those particular trusts.

MR. PERKINS: We allow the lawyer who draws the instrument and represents the family to represent the estate in every case unless there is some question that makes us feel that for some reason or other he is unfit for the job. The only cases where that isn't carried out is where the beneficiaries come to us in a body and say, "This man is persona non grata to us and we want you to use somebody else."

Two Types of Co-Mingled Funds

PRESIDENT STEPHENSON: I think that you gentlemen will perhaps be interested in the co-mingled fund portion of Mr. Perkins' address as much as or more than anything else that is going to come before the Conference, and I am going to take the liberty of suggesting that any of you who are interested particularly from the standpoint of your own companies in this co-mingled fund idea ask the City Bank Farmers Trust Company to send you a copy of its new booklet on its Fund "C." I am doing that without the consent or knowledge of Mr. Perkins, but I am sure that he will be glad to send that to anyone who asks for it, won't you, Mr. Perkins?

MR. PERKINS: Yes, I will.

PRESIDENT STEPHENSON: At the same time I am going to suggest that any of you who are interested in it ask me for a copy (not here, but write me at home) of our booklet on Equitable Fund "A," and I am making that suggestion without any apology, for this reason: Those two funds (the City Bank Farmers' Fund "C" and the Equitable Fund "A") represent two different methods of dealing with the same problem. The City Bank Farmers' Fund "C" is an incorporated fund and for reasons that are entirely satisfactory to the City Bank Farmers Trust Company it has incorporated its fund. The Equitable Fund "A" is an unincorporated fund.

After making a first-hand study of Mr. Perkins' Fund "C" we undertook to establish an incorporated fund in Delaware and found that after the certificate of incorporation had been drawn and submitted to counsel for final criticism and action there was a decision in the State of Delaware which seemed to make it inadvisable, if not practically impossible, to make use of an incorporation for the administration of that fund. So we immediately switched over to the unincorporated fund.

Some of the southern States may have decisions which put the incorporated fund out of the question; and some of you may have decisions that make the incorporated fund the advisable one. If you

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TRUST SERVICE and the SOUTH

By Wm. C. Bowman

President, First National Bank, Montgomery, Ala.

The tremendous strides made by the South within the past decade offer to her native sons opportunities and responsibilities worthy of their every ambition.

With her annual returns from factories and mines of $12,000,000,000, her amassed wealth of $80,000,000,000, and her population of 40,000,000, the South is becoming a definite factor in the industrial progress of the United States.

Added wealth brings added responsibilities and greater need for trust service. Trust institutions must be prepared to meet the issue with efficiency, with firmness, with fidelity, yet retaining somewhat the traditional sentiment of Southern forebears.

IN approaching the subject assigned to me there is just a bit of curiosity upon my part as to what was in the mind of the members of the program committee when they decided upon this title. Is it intended as a tribute to the South and a recognition of the great place that she has made for herself in our nation's affairs, or is it a note of hopefulness and optimism that under the care and nurture of her elders she stands upon the threshold of great achievement? Does this subject belong in the category of those we so often see in the daily press—"Are the Philippines capable of self government?"—"Will England accede to the demands of India?"—"Are we justified in continuing our policy of sending missionaries to China?"—"Are our friendly relations with Mexico upon a permanent basis?"—and *"Is The South Ready For Trust Service?"*

Leaders Drafted Elsewhere

I have no thought of being facetious or of chafing under the oft accepted belief that we still form a portion of the undeveloped territory of this great nation, but I do want to emphasize the fact that the South has been now for some time an integral part of these United States, and that with its tremendous resources and its imposing position in the industrial and financial life of our country it is no longer possible to put a wall around its geographical boundaries and deal with it as a separate and independent unit. It may be that the South has been a little tardy in utilizing its resources; that it has reveled too much in the past and clung too persistently to patriotic sentiments, but with it all she has built and is building for herself a stalwart citizenship, and a country sound in its industrial and economic structure.

Perhaps the explanation for our slowness in development has been the scarcity of leadership. Have we raised up no leaders in this southern clime, no financial wizards, no giants of industry? Yes, as great as can be boasted of by any section or by any nation. Then, where are they today? I'll tell you:—many of them, yes, hundreds of them, are in the front ranks and on the firing line of the great financial and industrial enterprises of our sister States who have called them to greater fields of service than we were able to supply, there to augment their already splendid array of business geniuses. When will our good friends from the North and East be able to supply their own demand and make available to us for our own consumption the brains and leadership of our native sons? When will they be able to send back to us such men as Charlie McCain, Percy Johnston, Baxter Jackson, Eugene Stetson, Henry Turnbull, Elmore Higgins and numerous others in the field of finance?—or Matthew Sloan, Sidney Zollicoffer Mitchell, A. R. Erskine, and dozens of other great industrial leaders which we have so sorely needed in the development of the South? I am not unmindful of the leadership of the splendid executives who are

WILLIAM C. BOWMAN

was born at Monroe, La., Sept. 14, 1882. He resided and received his public school education in Natchez, Miss. He received a B.A. degree at Millsaps College, Jackson, Miss., and graduated in law at the University of Mississippi in 1905. He practised law at Natchez until 1922, when he accepted the position of Vice-President and Trust Officer of The First National Bank. In March, 1929, he was elected President of the bank to succeed A. M. Baldwin who became Chairman of the Board.

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responsible for our progress, nor would I take from them the glory of achievement. It is not a question of great leaders, but of more leaders.

Rapid Development of Southern Resources

But, the day of reckoning is at hand. The tremendous strides made by the South within the past decade not only gives assurance of her rightful place in the financial and industrial ranks of our nation, but offers to her native sons opportunities and responsibilities worthy of their every ambition. It insures us capable and sufficient leadership, without which no people can prosper. Not only that, but as attention is drawn to our resources and our opportunities the tide begins to turn and we almost make bold to issue a challenge to our eastern friends as we point with pride to the fact that only recently we dared invade the sacred precincts of Wall Street itself and there drafted two of their very own in order that they might assume the leadership of one of the greatest financial institutions in the South. And, why not? Is it not worthy of note that the South is now spending annually more than $450,000,000 for education—a sum approximately equal to that expended annually by the entire nation only a decade ago? Is it not significant that some of those who emerged from that terrific civil strife have lived to see a bankrupt confederacy amass a fortune of $80,000,000,000, and an increase in population from 13,000,000 to 40,000,000 people. Does it seem very long since 1900? And yet, the South with her annual returns from factories and mines of $12,000,000,000 and her banking resources of $10,000,000,000 equals that of the entire United States only thirty years ago. North Carolina pays more to the Internal Revenue Department than all the New England States combined, and Virginia twice as much as Wisconsin or Indiana. Many statistics could be produced to show the rapid development that has and is taking place but suffice it to say that the South has now definitely established herself as a real factor in the development and manufacture of textiles, tobacco, furniture, chemicals, steel, coal, power and numerous other commodities, and that with these things come wealth, and with wealth comes a greater need for trust service.

The Continuance of Beautiful Homes

I like to visualize the South as being peculiarly fitted for trust service. True it is that our corporate trusts are limited and we cannot hope to profit materially from that character of service for some time to come, especially in the smaller business centers. Other problems which confront us are the great amount of undeveloped resources; large tracts of unprofitable lands; and communities too small to justify the establishment of trust service. But, as against that comes the opportunity really to serve. The greater the problems of a people, the greater the opportunity for real service, and just as we think of the Red Cross as the mother of the unfortunate, I like to think of trust service as the father of the widow and orphan. It is not enough just to preserve and make safe an estate. It is not enough just to dole out an income to dependents with marked regularity. The facilities of a trust department are made available at a time when the beneficiaries need more than that. It may be that the fragrance of these beautiful gardens and the charms of this historic little city stirs within me a sentiment that rises above the cold calculating machines of banks and trust departments, and makes me feel that to those who entrust to us the protection of their loved ones, we owe a greater debt than that.

I like to think of the man who in the making of his will not only provides for the proper administration of his estate, but injects into it some of the affection that he bears for his loved ones; and imposes upon his executor and trustee a higher duty than merely tracking the law in its dealings with his beneficiaries. Yes, I like to think of the man who, having made provision in his will for the actual needs of life, finds it possible to create just another small trust for a summer vacation for a tired and weary mother of his children, or for a Christmas fund to bring a ray of sunshine

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INVESTMENT OF TRUST FUNDS

By Robert Strickland, Jr.
Vice-President, First National Bank of Atlanta, Atlanta, Ga.

The prime duty of trust administration is the conservation of principal, with income and liquidity second, and enhancement of principal of comparative unimportance.

Generally accepted mediums of trust investment are government, State and municipal bonds, the best mortgages in the rail, utility and industrial fields, properly restricted real estate mortgages and preferred stocks. The retention of common stocks in trust estates is unjustifiable except under unusual conditions.

The enactment of scientific modernized trust investment laws in all the States would prove a great aid to all trust companies in their administration of estates.

Skilled and experienced advisory service in investing trust funds is vitally necessary. Large trust institutions can obtain this service from their bond departments or affiliated investment companies. The smaller institutions must secure it by the use of one of the three or four advisory statistical services, and the establishment of close working relationships with the investment advisory service of not more than two or three reputable investment banking houses, using each as a check on the other.

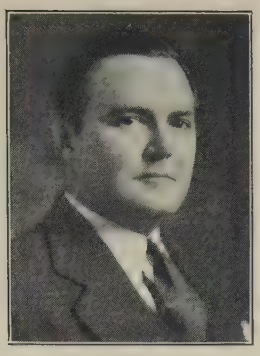
AS old as time, ever present in the record of man's progress from the earliest dawn of creation, is the right of property in some form and its transmission by inheritance. Second only to the sacred rights of liberty itself, property rights have rung down the ages as a cause for the race to rise in its might when either have been threatened by oppression or tyranny. The English-speaking people have built on the foundations of the Magna Charta at Runnymede and the Bill of Rights under Charles, the solid structure of present day property and inheritance, as well as of personal liberty. Through the centuries the oft times harsh and dangerous legal concepts of early common law have been modified and moulded—not alone by the trend of judicial precedent, but particularly in this country by statutory amendment, until we have today a trust and testamentary practice and procedure well suited in the main, upon which to rest with confidence that principal function of modern corporate fiduciary relations—the business administration and management of property.

How complex has become this simple problem of earlier years—how complicated the forms of property in this era of economic change. Passing rapidly from the poverty and hardship of Colonial days, our Republic found itself the abundant beneficiary of the rich bounty of a fertile land in the agricultural era of the last century. Real estate—farm lands—then constituted the bulk of almost every estate brought to the courts of probate. Title passed in kind and there was little need of continuing trust supervision.

The Kaleidoscopic Parade

Then the slumbering genius of a still young and pioneering nation, adapting the discoveries of science, borrowing the uses of invention, girded its loins and with brain and sinew and brawn, created an industrial Utopia—a land of unsurpassed opportunity. Too familiar to all of us is the rapidly rushing epic of the three decades of our national history bringing us to the time of this gathering. Decades of achievement; a generation of nerve exhausting progress, years of the creation of wealth beyond man's previous dreams of avarice.

Years, happily, not spent alone in materialistic gain, years that proved again our devotion to ideal-



ROBERT STRICKLAND, Jr.

was born at Tallapoosa, Ga., March 1, 1895; he studied at Emory University 1910-1912 and received his LL.B. degree at Atlanta Law School, 1914. Mr. Strickland practiced law as associate with the firm of Brandon and Hynds of Atlanta, 1913-1917. He has been with the Fourth National Bank (now the First National Bank) since 1919 and Vice-President since 1922. He is also Vice-President, First National Company; First National Associates; Trust Company of Georgia; director, Continental Trust Company, Macon and Sam Huston Peanut Company.

From 1917-19, he served as Lieutenant, U. S. Inf.; Instr. 3rd O.T.C., 82nd Div.

He was President, Atlanta Clearing House Assn., 1927; President, Georgia Bankers Assn., 1927-28; member executive council, National Bank Division, A.B.A., 1927-; director, Atlanta Chamber of Commerce, 1930, and member, Reserve City Bankers Assn.

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ism; years that witnessed, too, the march of education, the growth of man's humanity to man, the progress of culture, wealth and war, wise spending and wastrel extravagance, idealism and indolence, a decline of simple living, a growth of the intricacies of modern industrial and commercial life. A tremendous realization of world-wide relations, a sensitiveness to the actions of all peoples.

This kaleidoscopic parade of vice and virtue, achievement and failure, progress and retrogression brought to every phase of financial activity a new flood of difficulties, a new need for the revised application of old rules and precedents.

To the trust field, it has brought its most involved requirements, its most challenging responsibility. With it came forms of property strange to those pioneers in the fiduciary field—billions of new wealth in the capitalized value of brain and brawn represented by that creature of the past century—life insurance; all the instrumentalities which had brought the life blood of capital to create the marvelous corporate performers on the stage of our national business life.

Many New to the Field

Though our corporate trust functions had their roots deep in the fine traditions of those few pioneer institutions of the larger cities, this sudden wealth and the need of its correct administration after the passing on of its builders, brought quickly to the fiduciary field a large number of financial institutions.

While it is fair, I believe, to assume that no group in our modern life is more satisfactorily equipped to add, with reasonable facility and capacity, this trust function to its scope of services, it is greatly to be feared that not always has proper thought been given or preparation made by purely commercial institutions who have been attracted to the reputedly rich rewards of fiduciary management.

The current economic upheaval with its trail of diminishing values, its clearly demonstrated curve of both security income and dollar purchasing power; the rapid economic and scientific displacement by which today's business success is tomorrow's failure; these and myriad trends affecting all classes of property values are not problems to be solved by other than the most capable business and economic minds with a passion for study of high order. It is not likely that the experience of the counting house alone or simply training at the bar, other than with the most adaptable minds, can in a brief period, meet the needs of beneficiaries under these difficulties. Happily, such gatherings as these, and the fine thought now being given to trust progress and development the country over is building rapidly this new profession in which you have the honor to be included.

Under these conditions it is a most fortuitous circumstance that there is practically no disagreement that the prime duty of trust administration is the conservation of principal, with income and liquidity second, and enhancement, per se, an objective of comparative unimportance. Equally fortunate is the age old legacy of testamentary precept definitely establishing known and conservative public and mortgage security values as a standard for trust investment.

Wisdom of Statutory Limitations

In the just completed, but not forgotten, "new era" there was, and to some extent there still is, much ado for the liberalizing of trust investment powers. And indeed, no one will controvert the contention that there are on the statute books of many States archaic provisions of many years' stand-

ing, which have taken no thought of the passing of time or of changing conditions. These limitations, in many instances, so restrict the trust officer, that beneficiaries suffer either through loss of income or the fear or certainty of confiscatory taxation, not applicable to the holdings of persons in life. It is not, however, to the correction of these iniquities that the advocates of liberalization address themselves. Rather, they point to the erstwhile growing tendency for the use of common stocks as vehicles for investment; to the need of rapid change of trust portfolios from time to time so that income may follow the dollar's purchasing value in its economic gyrations. These suggestions, it appears to me, grow from the feeling of some trust men that it is incumbent on them to enter the competition of capital; to match the profits of the successful active business man, be he speculator or investor; to share, as it were, in the feverish activity of stock fluctuations and the changing investment styles of our modern financial field.

The plaint that such restrictions withdraw capital from the channels of progress and may hamper national growth is not tenable to one who has faith in the future of America, or its coming generations, whose greatest inheritance, I believe, is not the trusteed funds of forbears, in spite of which they may succeed, but rather the legacy of character, ability, and health which in the main they will receive. As great as may be the addition to our national wealth by the conservation of estates, the increment of honest energetic future generations will be a more potent factor than trusteed funds in our future economic life.

Not as a bank official, not as an investment banker, do I decry these suggestions with their obviously untried and unseasoned viewpoint, and their uncertain result. As a private citizen, with a competency of property and life insurance for the care of a deeply loved family, I sincerely hope that not before they reach their majority and can assume their own responsibilities, will any statute or practice permit the investment of their modest inheritance in equity stocks, or any composite thereof, based only on the theory of protection through diversity, as valuable as that principle is in any investment program or on either of the unwarranted assumptions that a given list of common stocks of corporations now successful will continue equally profitable in the vacillating economic trends about which these proponents of liberalized trust investments now complain, or that trust administrators will prove more adept in the management of such equity investments than have been astute active business minds handling their own funds with full knowledge of the risk involved. Such an investor may rebuild his losses by other or later ventures but the vanished principal of trust estates rarely can be replaced. It seems clear to me that not even the retention of common stocks in estates, much less their purchase by reinvestment, is justified, except under unusual conditions. Certainly no authority short of specific direction, no matter how broadly drawn, should be construed to permit such investments under the present high standards of trust administration.

Needs Little Amplification

Remembering your prime obligation to conserve principal, it seems to me that the traditionally defined scope of trust investments needs but little amplification to sufficiently broaden the field of opportunity to afford diversification, safety, stable yield and a degree of liquidity sufficient to meet all reasonable prospect of emergency.

Government, State, and municipal bonds, the best mortgages in the rail, utility, and industrial fields, real estate mortgages created under proper restrictions, and preferred stocks, comprise today, I believe, the generally accepted mediums of trust investment. Of these classes only public obligations and real estate mortgage loans are ordinarily recognized by the statutes of most jurisdictions for trust funds, in the absence of broader testamentary authority.

These statutory limitations have established the accepted standard for estate investment, despite the tremendous growth of trust funds since their enactment. So much so that many individuals believe that their executors cannot by any method invest their estate funds otherwise. Necessity has dictated the present almost universal practice of corporate trustees suggesting the inclusion of broad investment powers in testamentary appointments. So we are in effect circumventing the narrow prescribed limitations of outworn statutes by direction of the testator.

As a contrast to this condition in most States, we find in some States, relating to trust investment, and particularly to mutual savings bank investments, modern legislation, describing in minute detail the requirements to be met by corporate borrowers before their obligations can qualify as legal investments in such States. Property value, sustained earnings record and other essential safeguards must be met, not alone at the time of issue, but continuously, to qualify such obligations. The result, well known to all of you, is that the phrase "legal for investment in Massachusetts, Rhode Island, Connecticut, etc." has become a hallmark of excellence in the investment security field.

While the standard of trust investment by the most reputable, conscientious, and capably managed trust companies and banks will doubtless be voluntarily maintained on the highest plane, higher—no

doubt—than statute liberalization might prescribe, it must be remembered that all trust administration will not and cannot be of that same high standard, either by reason of occasional lack of a deep sense of responsibility, or—more frequently—as a result of honest but incompetent judgment.

Desirability of a Uniform Trust Investment Law

And so it seems not unreasonable to suggest that the enactment of a trust investment law, perhaps uniform in all States, and in all events carefully describing the entire field of trust investment, with due regard to highest investment values, and prescribing fully and conservatively the standards requisite to their eligibility, may prove a more satisfactory guide for the trust company of the future than to have unlimited testamentary authority become the rule, only to be abused in occasional instances, thereby bringing into disrepute or suspicion the entire fiduciary profession. For any who may doubt this possibility I invite consideration of the revelations concerning the investment of trust funds in some of the larger bank and trust company failures of the past year. As irksome as regulatory statutes often prove it is not unlikely that scientific, modernized laws, admitting to the field of "legals" the finest quality investment bonds, would prove a great aid to all trust companies in the development and administration of their trust appointments. Similarly, such statutes should describe the requirements for municipal bonds, a great percentage of which now qualify legally for trust funds, but are in many instances totally unfit from a practical standpoint of sound investment value. Suitable limitations on real estate mortgage loans, similar or even more severe than those now prescribed for real estate loans in national banks would form a proper part of such statutes.

It is not for the purpose of circumscribing the functions or limiting the initiative of well-managed trust companies that such a proposal is advanced, but rather with the thought that they should in effect say to the public—"this is our conception of proper investment limitations—out of our experience we propose these standards that trust administration may be uniformly safe and that the virtues of the able well-informed trust company shall not be injured by the dishonesty or inability of the few."

I am convinced that no great period will pass before such legislation is proposed and it will be infinitely preferable for it to come with the sponsorship of able trust leaders, than prompted by the aroused prejudices of unfriendly law makers, acting as a result of the failure of some fraudulently or incompetently conducted trust company.

Experienced Advisory Service Necessary

It is almost inconceivable that the trust function can be competently and properly discharged in this day without the constant supervision of investments, with especial reference to securities, by personnel experienced in the investment banking field. And yet, in other than the largest trust companies, it is virtually prohibitive to maintain a statistical and advisory service. It is now almost universally the rule for institutions maintaining both trust and investment departments to permit no trading between them. At this stage of trust development the wisdom of this policy cannot be questioned, despite the anomaly of a situation where one department of an ably-managed institution must seek its trust investments elsewhere, when frequently its own investment department could at the time furnish a superior investment of the desired type. There seems to me no question that this concession to the old legal principal of trustee self-dealing, and to public opinion, will find statutory relief as trust technique develops, or proper investment limitations are prescribed. At this time it appears that there is far greater danger of the estates of decedents suffering from unwise and uninformed investment policies, established and executed without competent research and advisory personnel, than from the supposed deliberate "dumping" of securities which it is presumed might follow unrestricted dealings between the trust and securities departments of the same institution, the entire policy of which is determined by a presumably able and honest management.

The prime aid which bond departments or affiliated investment companies now render their allied trust departments is of an advisory character relative to contemplated investment. With the larger institutions there is thus available a complete statistical organization and experienced personnel, uninfluenced by the hope of reward through sales, to aid the trust officer. Thus the investment department becomes a very real and valuable asset to the trust department, without profiting, directly or indirectly. In those institutions not large enough to maintain a highly specialized personnel to meet the problem of trust investment counsel, nor able to draw from the advice of an investment department, the problem is more difficult. Impartial investment advisory services are available but their adequacy is to be seriously questioned. To entrust their investment problems to one security dealer may prove their undoing, and yet to use the scattered opinions of many is only confusing. In such instances trust men unacquainted themselves with investment security technique or values, and without dependable facilities of their own control at hand, are apt to confine themselves to local investments of non-liquid

character, thereby sacrificing the essential geographical and vocational diversity, and bringing about a concentration of investments in a single community. The possible consequences of such a course seem fairly obvious. An apparently full protection would be provided in such cases, by the use of one of the three or four advisory statistical services, and the establishment of close working relationships with the investment advisory service of not more than two or three reputable investment banking houses, using each as a check on the other. In this manner, the trust officer of smaller institutions gains access to broad investment markets, makes his dealings with a limited number of investment houses of sufficient volume to be attractive, and gains advice of a technical value not ordinarily available from contact with the average salesman of securities.

Competitive Buying by Life Insurance Companies

While real estate mortgages already provide employment for large sums of trust funds in every State, it seems not amiss for the sake of emphasis to direct your attention to the activities in that field of one of your greatest benefactors, and potentially if not actually, one of your greatest competitors, i.e. the life insurance companies. In the larger cities the majority of choice mortgage loans are made for their account. In this manner there is being taken from the localities of each of us one of the safest and most satisfactory mediums of trust investment available, only to appear in life insurance company investment portfolios as a means of increasing yields on the trusteed funds of beneficiaries. While trust companies procure many desirable mortgage loans, it is my observation in my own community that the choicest mortgages flow to the insurance company investment account. This condition is naturally less acute in some smaller communities, but it is, I believe, sufficiently widespread to justify your careful consideration of methods to procure a fair share of these loans on sound standards of rate and appraisal, so that the less liquid percentage of investment properly found in nearly every trust fund may include this character of security.

As I come to the conclusion of these observations I am the more keenly aware of the inviting reaches which the fiduciary field opens to the mind alert for creative work and the gratifying feeling which results from the knowledge of a contribution to new thought and permanently constructive achievement. It is often remarked that a continuation of trust company growth for another generation will witness a concentration of resources in their hands so great as to cause concern for the welfare of our economic and social concepts and institutions. And well may that apprehension be voiced if there comes into your counsels the tempting voice of ambitious schemers; or novel untried plans. For my own part I prefer to visualize a new profession, with ethics worthy of the finest traditions of the legacy of testamentary practice which modern need has transferred from the realm of a friendly personal service, to that of capable corporate direction, no less friendly because of the unmatched character, integrity, ability, and human understanding of the men who give voice and life to such direction.

DISCUSSION

Two Schools of Thought

PRESIDENT STEPHENSON: It is doubtful, gentlemen, whether at any trust conference, either national or regional, you have ever heard or will ever hear the two schools of thought as to trust investments more forcefully presented than they have been presented this morning, one school of thought presented by Mr. Perkins, without mentioning it—espousing the school that looks for its authority to the case of Harvard College against Amory, known as the Massachusetts Rule, and the North Carolina Rule, which was defined only a few years ago in the Flint Tobacco Case, in which it is thought that trust company service will be most successfully rendered where it is not limited by statute, but where the trustee is put upon his own responsibility in the selection and retention of the trust investments. The other school of thought which relies on the guidance of statutes—the New York statutes, the Pennsylvania statutes, the Illinois statutes, and the statutes of perhaps most of the States that do prescribe the general class of trust investments, is represented by Mr. Strickland.

During the next twelve minutes I hope that we shall have a real discussion on the subject of trust investments.

Common Stocks Dangerous

TROY BEATTY, JR., (First National Bank, Memphis, Tenn.): On this question of trust investments, we have had two absolutely different opinions on investment in common stocks. The question has occurred to me as to what Mr. Strickland and his

school would think of investing in investment trusts where we get, by a small investment, pretty wide diversification. How would that answer the objection to investing in common stocks?

MR. STRICKLAND: I think I said "equity stocks or any composite thereof." That is what I intended to say because my whole feeling is based on the thought that too many trust companies are entering the field to have in them personnel sufficiently able to manage equity investments.

I have the greatest confidence in Mr. Perkins and his able staff to invest my money or anyone else's, but trust standards the country over cannot be brought to that level. It is going to be highly dangerous if you permit common stock investments in trusts.

As I said, you have very definite illustrations in different sections of the country of what could happen under an unlimited trust proviso. The trust business is growing entirely too rapidly not to become subject to legislative regulation one of these days. When that happens it is not going to include common stocks.

You gentlemen in your own experience in the past several years have seen the most astute business minds incur very large losses in what you thought and what they thought were very careful investments in common stock. And I don't consider that the investment trust idea, either of the management or state or the cumulative type, has been brought forward under proper sponsorship in this country, or with sufficient experience, to be a proper investment medium even for living persons accepting full responsibility, much less in the estates of decedents.

A Hazardous Policy

MR. PERKINS: I don't want to be understood as representing here an entirely different point of view from that which has been put forth by Mr. Strickland. In other words, I think that the investment in common stocks generally, by many of the trust companies in the country, is a hazardous policy, and we sell very largely of the common stocks that come into our hands, but ninety per cent of the trusts that come into our hands come in with express provision that they shall not be governed by the legal restrictions—and I believe that it is proper that a piece of machinery should be put into existence for those people who wish either to leave their fortunes in equity or who choose an agency that shall continue part of the investment in equity.

I can assure you that the job of going out and liquidating all the common stock that we have received under trusts and wills would be a very dangerous and almost disastrous situation.

If you please, to make it specific, we have in our company many estates of what might be considered the old Standard Oil group. Those estates were made by the oil stocks which went into them. They have been liquidated a good deal. But if we attempted to go out and liquidate all those stocks, except over a long period of time, it would be a very disastrous thing for the whole market. I can assure you that if I went back and sold all our oil stocks after the meeting this morning, the oil market would go down a long way before we got out of it. (Laughter.)

I entirely agree with Mr. Strickland that this thing must be handled with the greatest care and no organization ought to undertake this work without giving it the most serious consideration. But I go further than that. I think that nobody ought to start a trust department without giving it the most serious consideration.

Safety and Segregation OF TRUST ASSETS

By H. O. Edmonds

Vice-President, Northern Trust Company, Chicago, Ill.

Every trust department, large or small, must provide two kinds of safety for its trust assets: physical safety, which is a combination of good system and eternal vigilance; and, second, watchfulness over quality of securities, which entails being alert to the changing aspects of things so that money may be called back from one investment and placed in another at the dictates of prudence and good judgment.

The methods of achieving this safety and the segregation of trust assets are described by Mr. Edmonds.

LET me preface my remarks by saying that nothing herein should be taken as relating solely to a trust department of large size, organized in divisions with a numerous corps of employees. Between the greatest and the smallest units in our business there is no difference whatever in principle. The whole basis and justification for placing anything in trust is safety under every probable condition and implies the highest degree of intelligent care. The smallest among us is held in the bonds of this service just as much as the greatest, and he who would not bear this yoke let him confine himself to his own affairs, nor seek to be a trustee. The quantity of service to be performed may vary and with it the methods. The quality of service must be the same in every case. That is the ideal toward which all of us must strive.

I am not expected in this discourse to deal with the initial investment of trust funds or the regular reinvestment of the same. That subject is being covered by another speaker. My topic has little or nothing to do with the original selection from an estate of which you may be executor, of investments which you are willing to hold in trust under the terms of your trust instrument. That, also, is a part of the other subject. The two things, investment and reinvestment, and safety and segregation are interrelated, are two parts of the general subject, but they are not the same thing and the one is just as important as the other. My subject relates rather to the routine operation of the trust department and may, therefore, seem a humdrum affair, but a trust department cannot hope to be successful or to endure long if the principles herein treated of are not applied consistently every day. In addition to sound investment practices, watched over by officers and directors, there must always be present two kinds of safety, and after a few words on the subject of segregation of assets I will apply myself to these two.

All Must Conform

Now I have said in the beginning that great or small, old or new, all trust departments are held to the same standards and are expected to produce the same results of fidelity and good management. They must all conform to the ancient English traditions and practices of this business and to the modifications of the same introduced by the law and decisions of the several States. In one of the addresses at the national Mid-Winter Trust Conference in New York in February last, the speaker referred to a witty book by Hon. Augustine Birrell, K. C., a member of the Asquith cabinet, entitled "The Duties and Liabilities of Trustees." I have referred to it once or twice myself and may be pardoned for doing so again. Its author gives eight or ten rules governing trusteeship, the first three of which, he says, cover all the others. These three are:

First—You must know your trust.

Second—You must never forget it.

Third—You must always follow it, in matters important or seemingly unimportant.

HOWARD O. EDMONDS

was born at Pottsville, Pa., on January 27, 1868. He received his education in the public schools of Washington, D. C., and as a young man was employed in government service there, subsequently becoming Secretary of the World's Columbian Exposition of 1893 in Chicago. He studied law and was admitted to the Bar in Chicago in 1892. He was employed on the affairs of the estate of Cyrus H. McCormick for about two years after the World's Fair.

In 1896, he became Assistant Secretary of the Northern Trust Company, and some years later, Vice-President. Mr. Edmonds has had charge of the Trust Department of the Northern Trust Company for many years. He is a member of the Executive Committee of the Trust Company Division, A.B.A.

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On these three commandments hang all the law and the prophets.

You cannot go wrong, you cannot commit a breach of trust if you follow always these three rules with intelligence. How hard it is always to do so none know better than experienced trust men, and that is why the books here and abroad are full of law on this subject.

Now let me refer to segregation for a minute, and then to two kinds of safety.

Segregation of Trust Assets

There must be no mingling of trust assets with your own. No mingling whatever, either physically or accountant-wise. The single exception is that, being authorized by law to do a banking and trust business, probably you may keep the current cash account of the trust in your banking department on the same terms as you keep similar funds belonging to other customers. But if you do, be very careful and diligent to see that no cash principal is kept uninvested, and that income is paid over promptly in accordance with the trust. The government funds can be used as investments to keep working such sums of principal as, for any reason, cannot be invested otherwise and so you will escape the danger involved in mingling with your own funds those of your sacred trust.

The investments must be held sacredly apart from the company's own assets, each in an account for the particular trust to which it belongs, showing all the principal and income transactions relating thereto, with the assets by themselves properly earmarked and identified, and not mingled with the assets of any other trust or with your own.

Where affairs are large, it is convenient and often desirable that trust assets be kept in a separate vault. This is the practice in large centers. In the company which I serve, thirty-five years ago the trusts were kept in a steel cabinet two feet wide and four feet high, at the inner end of the bank vault right next to the gold reserve, and now they require a separate vault thirty feet square. In either case the principle of complete segregation in thought, word and deed remains the same. So hold your trusts that if misfortune arrives in your own affairs, your trust estates will stand apart, each one free of any claim and available for the person in whose favor it was made by the settlor. That's what it is to be a good trustee.

Two Kinds of Safety

Now, I have said there were two kinds of safety. These are:

First, physical safety, which is a combination of good system and eternal vigilance.

Second, watchfulness over the changing aspects of things so that money may be called back from one investment and placed in another at the dictates of prudence and good judgment.

Loose thinkers might assume that risks of negligence or lack of system may be present more often in small institutions or more often in large ones. Neither idea is necessarily correct. Wherever adequate system, intelligently enforced, exists, you have safety. Wherever this is lacking you will have it not. It does not need any explanation from me to demonstrate that a small trust department with good leadership may keep safely and handle promptly and accurately every note and every coupon on the one hand, and that a large department through careless enforcement or a too complicated system may fail to produce the same results. That is why the best brains of both great and small concerns are focused constantly on this matter in financial institutions. The only thing needed here in addition to brains is more brains.

In my young days we had a trust vault on the bank floor, reached from the trust department by going down a spiral steel stairway. In front of the door was a steel grill which separated the vault door from the banking department's public space. The building furnished us electric light. Central station

electric service was not then the perfect thing it has since become. The lights would go out sometimes, leaving us in darkness. There were two trust officers and I was the junior and there was no prescribed routine for this emergency, probably on the assumption that we were both intelligent. When the light went out I would seize my revolver and jump to the stairway, only to hear my brother officer clattering down ahead of me. We would close the inner door and stand at guard. A few minutes later we would hear the quiet voice of the president of the bank in the dark public space. "Heurtley!" "Yes, Sir!" And that was all. The situation was as fully met then in the days of our early growth as it is today when affairs are larger.

But difficulties of conversion render a raid on trust securities rather unprofitable and unlikely. Theft from within presents greater difficulties, which good accounting, careful, steady, reasonably prompt and always unexpected auditing, together with a good choice of human material will reduce to a minimum. Here then is a challenge to you and to me to put in the best we have of intelligence, forethought and executive ability for the service of this interesting profession of ours.

Watchfulness Over Quality

Now, as to watchfulness over the quality of your securities, which is my No. 2.

This is the thing which you accomplish by the steady, constant review of your trusts and of the securities which they contain—that is by obeying commandment No. 2, never to forget your trust. Much time is devoted to this work by larger trust companies. At conferences such as this it is often discussed, and a Committee of the Trust Company Division, of which I was a member, published two years ago a report accompanied by forms useful in pursuing this labor and making sure that important things were not overlooked.

If a trust company has a large volume of trusts, the importance of knowing, remembering and obeying your trusts will be felt. Trust officers will expend a great deal of time and energy and the only danger is that they may not organize and work intelligently, systematically and to good advantage. In smaller trust departments the feeling that they know all about the situation of their trusts may lead to false security. In either case, whether great or small, watch, therefore, and pray, but above all use the best heads you have. For here is the danger greater than that of the thief who breaks in or the thief who breaks out. Original errors of judgment may be caught while yet there is time and changed conditions may be recognized and the money called in or the form of investment changed. Does this mean that at the first breath of trouble you must sell securities, take losses and run to cover? Not always. Assuming that you are holding things that you are authorized to hold and not in excessive amounts, you are allowed to exercise sound discretion and all the judgment you can bring to bear, but you must see that you do just that. Merely holding on without careful investigation is not enough. Also, it is well to keep memoranda of the facts and the reasons for the decisions. These will be useful when next you cover the same ground. All this is necessary as the picketing, patrolling, inspecting and policing of an army in the field, and the memoranda in your files will demonstrate whether or not you have exercised that diligence and extreme care which is the duty of a good trustee.

Review of Securities

How best to supply this review of securities which is the No. 2 of my safety theme is the last thought I wish to leave with you. In business, every operation has an added value if in addition to fulfilling its main task it contributes directly or indirectly in other directions to the success of the business. Just so with this review business. You review your trust securities to keep them safe and you do it by means of a committee whose members will, if properly led, become better and more trust-minded men by reason of this service.

A trust officer once said to me years ago, "We review our trusts in the statistical department, but we have to lend them a man from the trust department to do the work and the funny part of it is that he is most efficient when he leaves the trust department and grows less so the longer he stays out of it." The statistical division or whatever takes the place of it in a smaller trust company, compiles and analyzes the information necessary for the review, but the reviewing can best be done by trust executives and the men in charge of trust investments. Their time must be saved by preparing material carefully in advance for their use but they are the men who can use this material to the best advantage. In using it they become better trust men—more able to know, remember and obey their trusts. Here is your first by-product in efficiency growing out of the reviews. And the second is like unto it. You add to the committee one or more of the juniors who keep minutes, dig up information and help the overworked seniors and in the operation become more proficient themselves. It is well to pick for this work a young man or men of promise, because the development will be in proportion to the excellence of the material plus the quality of the leadership of the group. Here are two important by-products growing out of your review work. They speak for themselves and I need not enlarge on them. Many of you have doubtless had similar experience in developing the technique of your trust department.

It would be easy to elaborate at great length upon

this theme and discuss for instance who shall be the members of this committee of review. Should the work be done by the board of directors or its committee? Or should members of the board serve on the active review committee and give it the benefit of their experience? Or should the committee be made up from the regular staff of the company? The answer as I see it is that the conditions of your own organization and personnel must govern. No rule can be laid down which will apply invariably. Men fit to be trustees of other people's affairs must participate actively, be they presidents, vice-presidents, directors or trust officers. Certainly the results must be laid before your board or its executive committee in such a manner that they can judge of the quality of your work and add the results of their judgment to yours whenever it is necessary. Your committee must spend all the time necessary to do the work properly, and yet you cannot strip the department of its senior men and must serve your customers. You cannot pass the thing down to juniors as a labor beneath senior attention. Under some circumstances it can be carried on by the board or the committee. Under others by a review committee on which one or more directors will serve. Under others by a committee of the bank's staff, carefully chosen so as to bring to bear the men familiar with investment needs and quality and with capable juniors in attendance, like the internes at a hospital service. In the institution with which I am connected, a complete set of review reports for several years back is filed close to the senior investment officer's desk, containing a list of the investments in each trust, readily accessible and frequently consulted when new investments are made. This file of reviews is a monument to the painstaking, intelligent zeal of the man in the statistical division who compiles information for the committee's use. He is the liaison officer between the two departments, capable of serving in either one, and of thinking always like a good trustee.

And now, finally, whether a trust department is great or small, it is held to a high standard of care and intelligence. Whether great or small, you must produce the same results. You go about differently to do it but you must do it. You are the servants of Acquaintance, Remembrance and Obedience. You must serve these three faithfully, honestly and diligently. You must segregate your trusts so that they will never be mingled or confounded with your own property. You must keep each item physically safe day and night by proper routine, carefully applied. You must guard their quality and keep up their excellence by regular, careful review, and you must improve your knowledge and technique and develop your succession, remembering always that many of the trusts will last beyond your life and mine.

Making the South Trust-Company-Conscious

(*Continued from page* 3)

as important departments of your trust companies as any other division that you have.

Providing Adequate Trust Facilities

Gentlemen, suppose you make your analysis and you find that in a community of 15,000 people there is not enough trust business for more than one trust company. What are you going to do? Keep on undertaking to run two or three or four little half-manned, half-equipped trust departments, and discount trust company service, by reason of the fact that you are not manned and equipped to render the best type of trust company service?

It seems to me that this issue must be met courageously and it must be met in one of two ways. In some communities it seems to me it is going to be necessary for the bankers and executives to get together and in some way arrange to leave the business, the trust business, to one of the institutions of the community. Or it seems to me that it may be necessary for the executives of the banks and trust companies of that community to get together and to say, "We are going to organize a bankers' trust company and we are going to let that one trust company do the trust business in this whole community, and we are going to let each banking institution in this community have a proportionate part of the stock-holding of this trust company, and all of the banks of the community are going to work together and share proportionately in the profits of that trust company."

I am not undertaking this morning, gentlemen—far from it—to advocate any definite program. All that I am undertaking to do is to stimulate in the executives who are here, a realization of the necessity in the South, of all sections of our country, of a careful analysis of the trust possibilities of their respective communities, so that there will not be unnecessary overlapping in the trust company service that is offered and so there will not be unnecessary gaps in the trust company service that is offered.

The thought that is uppermost in my mind, is that the immediate duty that rests upon the trust men of the South and upon the executives of the banks and the trust companies of the South is to give attention to these two fundamental questions: How shall we make the South more will-conscious? How shall we make the South more trust-company-conscious? And in a practical way how shall we give the South adequate trust company facilities?

A SOUND BASIS for Trust Accounting

By I. S. Bull

Asst. Trust Officer, Wachovia Bank and Trust Company, Winston-Salem, N. C.

The fundamentals of any accounting system, Mr. Bull points out, are that it shall be simple, adequate, and assure proper control and audit.

The basic features of such a system are the same whether designed for a small or a large trust department.

Mr. Bull describes in detail the simplified system now in process of preparation by the Committee on Trust Accounting of the Trust Company Division, American Bankers Association. He also suggests a method for carrying security values on the books; for providing for dual control of securities; and discusses the advantages of machine bookkeeping.

THE subject assigned for discussion in this paper is "A Sound Basis for Trust Accounting" and I will, therefore, endeavor to confine these remarks, as much as possible, to the foundation or groundwork of an accounting system, rather than endeavor to give any more than necessary of the details of the system itself.

A trust department will not have a sound accounting system unless it has in the first instance a sound basic plan of accounting. Neither will it have a sound accounting system unless the plan as outlined provides for its being carried out rigidly in all its various details.

A Sound Plan

In planning a system one would, of course, have to take into consideration the present size of the department for which it is being designed, also the estimated growth which the department may reasonably expect to enjoy in the future. This may be gauged somewhat by a survey of the field which the particular department might rightfully expect to serve, but our discussion pertains particularly to a sound basic plan, rather than to the size of the department, and this basic plan should be the same in the case of a large or small department, although it might be handled to advantage in a somewhat different way. Obviously an accounting system for a large departmentalized trust department would be different from an accounting system designed for a new or a small trust department; nevertheless both departments would require and should have a sound basic plan.

There are certain fundamentals that should be embodied in every accounting system, and every system should be simple so that it will be easily understood, adequate in that it should provide full and complete information in connection with every account, and under proper control and audit to insure absolute accuracy.

Basic Records

The basic records pertaining to the liability of the department to its customers are:

1. Journal
2. General Ledger

The basic records pertaining to the individual accounts are:

1. Cash Principal
2. Cash Income
3. Asset Records:

   These asset records should be handled by classifications, such as stocks, bonds, mortgages, notes, real estate and miscellaneous items. On these records should be shown a complete description of the item, the cost or inventory value, the maturity date, if any, interest or dividend rate, interest or dividend payment dates, etc.

IRVING S. BULL

was born at Mamaroneck, New York, October 27, 1887. He entered the banking business directly from high school, taking a position with the First National Bank and Trust Company at Mamaroneck in 1904. In 1918, he went to New York City and accepted a position with the National City Bank in the Auditing and Adjustment Department. Several years later he became connected with the Guaranty Trust Company of New York in the Personal Trust Division at its main office. During his stay in New York he completed a course in fiduciary accounting at New York University.

In 1923, Mr. Bull joined the staff of the Trust Department of the Wachovia Bank and Trust Company in Winston-Salem, N. C., and in the same year was elected Assistant Trust Officer. In 1930 he was elected to the position of Secretary and Assistant Trust Officer. He is a member of the Trust Accounting Committee of the Trust Division, American Bankers Association.

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4. History Record

   On this record there should be entered all pertinent information relating to the individual account.

In addition to the book records already mentioned, there must be some original records pertaining to each separate transaction. In the case of cash this would be the original credit tickets made out in the teller's cage at the time the funds are received, and for disbursements the copy of the voucher would be the original debit. In the case of securities a copy of the original receipt issued to the customer or the "In" and "Out" tickets would act as the original record.

Committee on Trust Accounting

The American Bankers Association Committee on Trust Accounting System was given the task of preparing a simplified trust system for new trust departments, to comprise a manual of operations and a set of forms. The Committee has been at work for some time and is now carefully reviewing a system, the principal features of which were originally outlined by Charles H. Plenty, Vice-President of the Hackensack Trust Company, Hackensack, New Jersey. It is intended that this system when completed will be made available by the Trust Division of the American Bankers Association for distribution. The Committee was at once confronted with the problem of devising a system which would be fundamentally sound and yet be simple enough to be adapted to the requirements in any jurisdiction where it might be used and, at the same time, be the foundation for a system that would permit of considerable expansion without the necessity of changing the basic plan.

It has been stated before that the basic features of a system designed for a small department or for a large department are the same. It may be worth while to describe somewhat in detail the American Bankers Association's simplified system now in process of preparation. The book records are:

1. Journal
2. General Ledger
3. Individual Trust Ledger with the following adjuncts:

   Debit and credit tickets, cards for investment record, department tickler and trust voucher.

The Journal is a book of original entry in which each transaction in every trust is noted.

The General Ledger is the generally used form.

The Individual Trust Records, wherein are carried the complete transactions of each estate or trust, comprise the following sheets:

Condition or History of Trust	Notes
Principal Control	Real Estate
Bonds	Miscellaneous
Stocks	Principal Cash
Mortgages	Income Cash

These records are to be posted by pen and ink.

It is intended that the debit and credit tickets are to be posted to the Journal, the daily totals from the Journal posted to the General Ledger, and the individual transactions appearing on the Journal posted to the individual trust accounts.

Book of Original Entry

One of the basic features of any accounting system is the book or record of original entry. As previously stated, the book of original entry, as pertains to cash and securities, is the Journal. All transactions are entered on this Journal in detail and every security

received is debited to its proper classification and credited to the department's principal liability, and will, therefore, appear on the department's balance sheet as a liability of the department to its several accounts for the amount at which it is carried. It will be noted that a double entry bookkeeping system has been adopted and each debit entry on the Journal has an offsetting credit entry and each credit entry an offsetting debit entry. This provides the totals necessary to give at all times the liability of the department to its various accounts.

Valuing Securities

The question of the value used in controlling securities is a mooted one and in the American Bankers Association system the plan is to carry securities at their cost price or inventory value. In using this plan it is absolutely necessary that the inventory values be ascertained before the items can be properly entered on the Journal and posted to the various accounts. Where this value cannot be ascertained the day that the securities are received it will either be necessary to hold up the entry, or place the security on the record of original entry at an estimated value later to be adjusted to the proper value. Instead of using actual values, a control value may be used. This feature of control for securities is used by some of the larger trust departments and it may be interesting to describe it somewhat. The amounts used are not intended to represent a value of any kind but are simply uniform arbitrary amounts to control each class of asset. By uniform amounts I mean that the control used for each class does not vary, notwithstanding the inventory or cost price. For instance if the control values used are:

On Stocks—$1.00 per share
On Bonds—Their par value

these amounts are used whenever any stocks and bonds are received and the liability control of the department to its trust accounts immediately reflects an increase of stocks or an increase in bonds. After once being entered in this manner the securities are under absolute control and must be accounted for at the proper time.

The question then arises as to the inventory or cost prices of these securities which are entered at a control amount. This might at first seem to be an objection but to my mind it is not. Your first concern should be to make sure you have the securities entered on your books and that they cannot get away without the proper authorization. After this is done the proper records can be set up showing the inventory or cost price of each item. The usual plan for accomplishing this is to have printed on each security card a column to record this value which in the case of securities purchased may be obtained from the cash principal records, and in the case of securities received from the appraisal as soon as made. If a trust under a will, from the executor's accounting.

Carrying Additional Values

It is often necessary to carry more than one value in connection with trust assets. In the case of trusts originating before March 1, 1913, it is necessary to have the inventory or cost price and then the March 1, 1913, value for Federal income tax purposes. In North Carolina, our income tax law went into effect on January 1, 1921, and it is therefore necessary to carry this value also. We have previously provided for recording the inventory value by an entry on the face of the security sheet or card. The values for other purposes may conveniently be placed on the back of such security records. As securities are sold these records are adjusted in accordance with the government or State regulations by making a deduction equal to the amount of the basis used for the securities sold. Rights, of course, affect those values which might be adjusted as rights are sold or exercised.

Advantages of a Uniform Control Value

Some of the advantages in using a uniform amount for control purposes in entering securities on the books are:

1. Securities may be entered on books at once without waiting to obtain appraisal in the case of securities received.

2. Securities can be readily withdrawn from vault as the control amount used in their withdrawal is not their cost or inventory value, but is a uniform amount per share or the par value.

3. In handling withdrawals from the vault it eliminates the need for ascertaining the purchase price, as would be the case if a control amount was not used, and therefore simplifies each security transaction in that it is not necessary to refer to the books to find out the amount for which the particular security was originally entered.

4. The balance of each security card or sheet reflects at a glance either the number of shares held or the par value held. This is valuable information as pertains to each account, also to the department as a whole.

5. Eliminates the necessity of making adjusting entries when securities are sold at a gain over inventory value or at a loss under inventory value.

Figuring Status of Trust

It is true that a fiduciary is charged with the assets received at their inventory value and must account for any loss or gain on the same. Therefore, inventory values must be a part of the permanent records but

need not be used on the books to control securities on hand and in the vault. There is only one way to show the status of an estate or trust and that is to set forth in a proper accounting in schedule form a record of the assets received and the values at which they were charged to the fiduciary. This is the starting point and then follows a record of all intervening transactions involving exchange of securities, sales and reinvestments, ending with a schedule of the securities on hand giving their market value as of the date of the accounting. Neither in a large or in a small trust department is it possible to keep books showing such a statement of condition daily. This must be compiled using the inventory values, also the market values on the day on which it is necessary to account. All that is required in a sound accounting system with respect to securities, is to have a positive control of the securities while held and keep readily available the necessary information as to description, cost or inventory value, and record of sale or disposition. The cash records must of necessity show the transactions as to all purchases. The value of a trust fund changes from day to day and the total value can only be ascertained by an actual valuation on any day. Such daily information is not needed and to obtain it daily would be physically impossible in a large department.

While I have dwelt at some length on the method of handling securities where a unit or control value is used, this has been done only for the purpose of suggesting both the advantages and the objections. The unit or control value plan has, to a certain extent in this paper, been compared with the inventory plan, which I believe the A. B. A. Committee on Trust Accounting will adopt unanimously in connection with the proposed simplified system for new or small trust departments. Personally I would not consider recommending for the A. B. A. Simplified System any plan which did not provide that securities be carried on the books for control and other purposes at their inventory or cost price.

Dual Control

Any adequate trust system should provide for the careful and safe handling of securities and the keeping of them under control. Here again one of the essentials is simplicity to as great a degree as possible. Dual control is a prerequisite in any plan. Those entrusted with the responsibility of the care of securities are entitled to have every known safeguard exercised for their own protection as well as that of the trust department itself. For this reason, if for no other, vault officials and those entrusted with the responsibility of the care of securities will welcome dual control of the property in their care.

The general consensus of opinion is, that there is much more danger in securities not being properly handled when first received, than there is after they have been entered on the books, and I believe this is very true.

Obviously then, a sound plan should also provide for their control from the time they enter the department until they are placed on the records and deposited in the vaults. This is accomplished through the use of formal receipts with an auditor's copy. It is assumed that all securities going to or received from the vaults are accompanied by a ticket with sufficient copies for all purposes. One of these copies must go to the auditor after having been signed by the vault receiving clerk. The auditor's copies of the original receipts are checked each day in the Auditing Department with the signed tickets received from the vault, to see that all securities received have found their way to the vault. After having been entered on the books at an inventory or other value, they are then under control as far as the books go and must be accounted for whenever the periodic audits are made.

Machine Bookkeeping

A number of the larger trust departments have now installed, or are contemplating the installation of machine bookkeeping systems. Such a system is just as applicable to the smaller departments. However, the cost prevents many from making the change who might otherwise do so. Also the task involved in making the change, perhaps, has prevented some of the larger departments from adopting machine bookkeeping, notwithstanding the fact that they recognize its benefits.

Whether to use machine bookkeeping or pen and ink bookkeeping is a matter that involves cost, volume of work, and legibility of records. It is not primarily one of sound accounting practice since the fundamental principles will be the same if the system is properly designed. The use of an accounting machine in trust department work practically eliminates the risk of mathematical errors. When used it is possible to prepare a running journal at the same time that the security and cash records are posted. Old balances involving both securities and cash are picked up, debits and credits are posted and new balances shown. The debits and credits are accumulated for both cash and securities and these totals must agree with the predetermined totals as ascertained by someone other than the bookkeeper.

In addition to the legibility and mathematical accuracy of machine bookkeeping some have found that considerable time is saved, as compared with hand bookkeeping. Others have not found this to be so. Whether there is any saving of time involved probably depends upon the system formerly used and the accuracy and rapidity of the bookkeepers, also the system used in connection with the machine installation. Some trust departments are making their statements

(*Continued on page* 35)

TAXATION
and Trust Estates in the South

By Hon. Walter G. Query
Chairman, South Carolina Tax Commission, Columbia, S. C.

Trust property is and should be subject to the same forms and rates of taxation as is property owned by individual tax payers. But unless all the southern States are willing to offer the same protection from excessive taxation, to specific properties, as have Virginia and Kentucky, trust institutions located in those other States need not attempt to build up a trust business.

Virginia and Kentucky permit the classification of property for taxation and are imposing fair rates in keeping with the modern trend of taxation on intangibles. These rates produce considerable revenue and are more equitable than is a uniform property tax.

The adoption by 35 States of the reciprocal law for the exemption from taxation of non-resident intangibles is doing much to prevent duplicate taxation. Only 11 States, including Kentucky and Louisiana remain to enact such legislation.

While tax reform is necessary it will not afford the relief needed unless accompanied by a reduction in governmental expenditure.

THE transferring and vesting of property in one person, called a trustee, to be managed and disposed of by him for the benefit of other persons, termed as beneficiaries, constitutes our system of trusts.

The trust is said to have been the invention of ecclesiastics well acquainted with Roman law, the object being to escape the provisions of the laws against ecclesiastical corporations by obtaining the conveyance of an estate to a friend with the understanding that they should receive the actual profit and enjoyment of the estate. The trust was developed in the English Court of Chancery and comes to the United States as a part of our heritage of English jurisprudence, changed or limited by statutes in certain States. A trust implies two interests, one legal and the other equitable; the trust holding the legal title or interest and the beneficiary holding the equitable title or interest. The legal title carries with it the right to the possession and control of the property, the beneficial title carries with it the right to the ultimate enjoyment of the property. Trusts are created by deeds, agreements, declarations and under wills.

Increasing Cost of Government

The increasing cost of government has reached such proportions that the line of demarcation between reasonable profit on one side and continual loss on the other has been reached, therefore, it behooves every class of taxpayer to take interest in the matter of taxation. So long as the citizens of the southern States were content with limited service from government, the cost of such government was but a small part of the overhead of established business, but today in an attempt to furnish their citizens the same kind of service furnished by wealthier States, the States which comprise your conference membership, find themselves in a dilemma. This dilemma has been brought about by a combination of circumstances, that of an extended period of economic depression with attending upsets in every line of business and a horizontal increase in governmental cost, caused by wide expansion of governmental functions.

The brunt of the burden of bearing the increased cost of government in the southern States falls largely upon tangible property, real and personal, as

WALTER GRAHAM QUERY

Chairman, South Carolina Tax Commission, was born May 4, 1877, Lancaster, S. C.; and was educated there in the private and public schools.

He was a member of the South Carolina House of Representatives in 1915, resigning to accept appointment as a member of the South Carolina Tax Commission in 1916. He was reappointed to membership in the Tax Commission in 1918, 1924 and 1930, and was elected Chairman in 1922. In 1927 he was elected Secretary of the National Tax Association. His office is at Columbia, South Carolina.

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evidenced by an inspection of the tax rolls of State, county, school and municipal governments. The question then arises in my mind—are trust estates, as a class of property subject to taxation, in a different class from that of all other species or classes of property in so far as the tax burden is concerned?

No grant or charter being necessary there is no occasion for the imposition of any form of organization tax. The growth of trusts and the trust business has resulted, however, in the enactment of some legislation tending to the imposition of taxes on trusts "in business" not imposed upon other forms of trusts. It must be distinctly understood that while there is a legal, as well as an equitable, interest in a trust the two interests form but one interest in a property. Two distinct properties do not exist; therefore, in general practice, taxation of property is not affected by the fact that a trust is created.

Taxability of Trust Property

If an estate is composed entirely of real estate, should the real estate owned by a trust bear a lesser share of the tax burden than does real estate owned by individual taxpayers and corporations operating for profit?

If trust estates are composed of intangible properties, such property is, and should be, subject to the same forms and rates of taxation as are imposed upon intangibles owned by individual taxpayers. The citizen who may be able to invest his profits or an accumulation of savings is perforce more interested in the purchase of either non-taxable securities or intangibles which bear a lower rate of taxation in some States than do other properties, such as tangible properties. In order that the income from the investment may be ample to provide not only means of support but an accumulation of further profits, it, therefore, behooves the investing public to have in mind the taxability by governments of particular stocks, bonds, etc., and unless all the southern States are willing to offer the same protection from excessive taxation to definite and specific properties, as have Virginia and Kentucky, then the trust departments of the financial institutions located in the other States of the South need not attempt to build up a trust business.

Intangible properties which are subject to taxation under the uniform clause of a State Constitution are not attractive to the investing public and this fact may, in part, be responsible for the movement which shows a tendency towards the adoption of a limited classification of property for taxation.

Advocacy of Impartial Classification

Tax authorities are not unanimous in the advocacy of classification. Among the ranks of economists, the advocates of classification, include Bullock, Brindley, Jensen, Viner and many others. These economists have advocated classification impartially in the interest of improved taxation methods and greater justice in taxation. None, however, regard classification as an ultimate and complete solution of State tax problems. I refer to the famous Richmond decision handed down some fifteen years ago. We have had a continuous effort on the part of tax officials in a good many of the States where property has been classified to impose a larger burden upon national banks. Those of you who are interested in the work now being done by the committee of the National Tax Association may recall that at each one of those sessions there has been an effort on the part of a certain tax group to get the Association to put itself on record with reference to the amendment to revise Statute 5219, having to do with the taxation of national banks.

In practice, uniform property tax States do not actually impose a tax on intangibles to the same extent, or as generally, as is levied upon general property, for the reason that intangibles are locked within safety deposit boxes away from the eyes of the taxing officials, and because of the attitude of tax officials, supported by public opinion, that to require full returns of intangibles would be confiscation of the property.

Rates Fixed by Virginia and Kentucky

Virginia and Kentucky of the group of States forming the Southern Trust Conference have, by constitutional amendment, permitted the classification of property for taxation and are imposing upon such properties a fair rate of levy. Such rates are in keeping with the modern trend of taxation on intangibles, produce considerable revenue and conform to the tenets of justice to a much greater extent than does a uniform property tax. The intangibles taxed and the rate of taxation in the two States are as follows:

> *Kentucky*—Money, credits, bonds and shares of stock, 5 mills on each dollar; bank deposits, 1 mill; 100 per cent of full value is basis of levy. The exempted intangibles are United States bonds, shares of stock of corporations having three-fourths of property located within the State.
>
> *Virginia*—Bonds, notes and other evidences of indebtedness, 5 mills; money, 2 mills; moneyed capital in competition with national banks, the stock of banks and trust companies, 10 mills; 100 per cent of full value is the basis of levy. Exempt intangibles are shares of stock issued by any corporation, foreign or domestic, except shares issued by banks or trust companies.

If trust estates in the South are composed, to a great extent, of intangible properties in the States which levy uniform property taxes, trust officers could, with propriety, join with other owners of intangible property and show the injustice of a uniform tax rate being levied on such property.

Spread of Reciprocal Exemption

In addition to the annual property tax which must be paid on properties controlled by trustees, the State inheritance or so-called death taxes have been unusually excessive. Only within the past four or five years have estates of non-resident decedents composed of intangibles enjoyed the right to pay a tax to one State only. The action of thirty-five State legislatures in enacting reciprocal legislation affecting intangible property of non-resident decedents prevents the duplicate taxation of such properties. The movement of reciprocity in inheritance taxation has spread to such extent that only eleven States yet remain to enact such legislation but even if the few remaining States, including Kentucky and Louisiana, do not enact such legislation, the opinion of the Supreme Court of the United States in Farmers Loan & Trust Company vs. Minnesota, 280, U. S. 204, 74 L. Ed., may afford the protection not provided by law. The majority opinion of the Court, is in part, "Taxation is an intensely practical matter and laws in respect to it should be construed and applied with a view of avoiding so far as possible unjust and oppressive consequences." The utterance of the Court justifies the action of the General Assemblies of the several States which have enacted reciprocal legislation and to my mind seems to be a warning to the States to discontinue attempts to impose duplicate taxation.

Effect of Taxation on Trust Estates

State income taxes are imposed upon beneficiaries because of their residence in the State or because of residence of trustees together with the transaction of their business within the State according to the terms of existing income tax statutes. None of the southern States attempt to apply franchise taxes to trusts or trust estates, except where such trust comes within the terms of "business trusts" or "trust estates as business companies."

Being ignorant as to the volume of trust estate business in the States forming your group and being unable to secure from the tax officials in the several States information regarding the effect of taxation on such business, I hesitate to express an opinion regarding the future development of such business under existing tax statutes, but I venture to make this observation, based on fifteen years' experience in the administration of tax laws and their effect on business, to wit: If the burden of taxation bears harshly or with greater weight upon the property of trust estates than upon other property, and if the injustice of such taxation can be shown to the lawmakers, I believe that justice will be had. My position is founded upon the action of thirty-five State legislatures in the enactment of reciprocal inheritance tax legislation, as well as the trend of taxation relating to the classification of property.

Pending Bill in South Carolina

It may be of interest to you people who are residents of other States to know that there is pending before the South Carolina General Assembly a bill providing for the ratification of an amendment to our Constitution permitting the classification of property. This was submitted to the electorate in the 1930 election and it carried by a bare majority. The Senate has ratified it and it is now on the House calendar and it looks as if it will be ratified at the present session of the General Assembly.

I might also say that my Department has suggested to those in charge of the furtherance of the bill that in our opinion the proper thing to do will be to appoint a select committee from the personnel of the General Assembly to work out some equitable rates to apply to the various classes of intangibles and write that into the statute laws of our State in 1932, to become effective to intangibles on January

1, 1933. This will give ample time for all the owners of intangible property to approach the matter of the taxation of such properties in the proper way, so that business will not be disturbed.

North Carolina also voted on this question at the last election but it was defeated. I am informed by my friend, Mr. Norman, the Tax Commissioner of Georgia, that the question will also be put up to the General Assembly of Georgia.

So the trend in taxation is to equalize the burdens and remove injustices which may be written into present laws.

You, of course, are primarily interested in legislation affecting those properties composing the average trust estate, but it is hoped that your efforts in behalf of the enactment of tax legislation affecting such properties may be in co-operation with representatives of other tax-paying groups who also find the tax load most burdensome.

Should Reduce Governmental Expenses

In approaching the subject allotted me I found myself groping around, as it were, to find wherein the tax burden on the property owned or controlled by a trustee differed from taxes imposed upon similar property individually owned, and I found the burden to be practically the same. Then, if the development of trust business in the South is impossible because of, or is retarded by, burdensome taxes, can the burden be removed by legislation? Will law-makers enact tax laws which will permit tax avoidance on the part of some properties and thus impose increased burdens on other property? It has been suggested that tax reform will cure all fiscal problems as well as give relief to every protesting taxpayer, but each step in so-called tax reform, such as the classification of property to permit the taxation of intangibles at low rates, the adoption of State income tax laws, as well as the South Carolina type of selected sales taxes, does not afford the relief needed in these days of short profit and, in many cases, substantial losses. May I suggest that in conjunction with your efforts to avoid burdensome taxation you direct the same energy in behalf of reduction in governmental expenditures. Much is now being said and printed about public expenditures, and much more will be said so long as the functions of government are ever widening, for the tax bill will continue to increase to the same extent that expenditures increase.

May I close by suggesting that the development of the trust business in the South may be retarded by burdensome taxes but that the solution lies not so much in tax reform as it does in the control of governmental expenditures.

Trust Service and the South

(*Continued from page* 11)

into a dreary household—something of an incentive to carry on and preserve the sanctity of the home.

And, where in all the land is there greater opportunity for trust service to aid in the continuance of the home? In the great financial centers of the North and East, in the snow clad mountains of New England, in the deserts of the West, what difficulties there are in solving the many problems of continuing the home especially for those of modest means! But here, the home of sunshine, the home of flowers, the fountain source of sentiment, the land of homes, we have a great opportunity for injecting into that sacred trust, that responsibility for safe keeping, a yet deeper feeling of our obligation—that of helping those entrusted to our care to carry on and prove worthy of the sacrifice of him who left their keeping in our hands.

Yes, the South is steadily marching on to industrial supremacy; sentiment is fast yielding to commercialism; with added wealth comes added responsibilities, greater need for trust service and we must be prepared to meet the issue. Let us meet it with efficiency, with firmness, with fidelity, but let us still cling somewhat to the tradition of our forebears, to our love of home, to sentiments so fitting to our southern clime, and as we engage upn a larger and broader field of trust service, let us now and then mingle with the cold administration of our trusts a little sentiment, a little love, a little sunshine, to the end that when the South is again set apart as a distinctive unit of our commonwealth, it will be in recognition of the fact that it has a warm, pulsing heart and that it excels in the character of trust service which it renders to those entrusted to its care.

PRACTICAL POLICIES for Trust Business Development

By Ronald Ransom

Vice-President, Fulton National Bank, Atlanta, Ga.

The development of trust business is primarily a problem of salesmanship.

It involves at the outset a careful study of the market, the preparation of a mailing list, a card record containing all needed information concerning prospects, and a decision as to the type of business that is or is not acceptable.

A definite yearly appropriation for advertising is desirable to insure the necessary continuity. Newspapers and direct mail are usually considered the two best media.

According to recognized principles, trust advertising must be educational and show the advantages of trust service. Trust solicitors should be employed, but high pressure sales methods avoided.

The obstacles and objections that will be encountered and must be overcome are pointed out by Mr. Ransom, as well as effective methods of keeping in touch with the work of solicitors and prospects and measuring up to advertisements and sales talks.

As the work of a new trust department increases, it divides along the lines of development and administration. While some details of both will fall to all the men in a small department, it is necessary that development should be seen as a separate and distinct field if it is to be correctly understood.

The development of trust business is primarily a problem of salesmanship. It must be based on a careful study of the market and on a definite plan.

The Market

Your major market will be found among a certain percentage of the customers of your own bank. Fred Ellsworth says that out of 1,000 bank customers, twenty may be considered as trust prospects. This must necessarily vary in different institutions and in different communities. You will find some prospects for your department among the corresponding class of the general public. It is not an impossible task to acquire trust business from the customers of other banks in your own city, but your principal field will always be your own institution.

The files of your own bank should be subjected to the closest examination. Potential trust prospects will be found among the customers of every department. If your bank does not maintain a central file, then you must search each department separately. The trust department should be represented at all meetings of your officers and directors. You should watch all new accounts as they are opened and examine corporation accounts for the names of their executives.

The officers of the bank who come in contact constantly with the customers of the institution can be of great assistance to you by suggesting the use of the trust department to these customers and by promptly introducing them to your trust men. Some of your most valuable leads will naturally come from these contacts. From all these sources you will build your mailing list.

Mailing List

This work should be systematized and there are certain essentials to observe in preparing the list. In addition to the names you get from the sources suggested, a few carefully selected names from outside your bank should be added. These should include attorneys likely to be consulted by the wealthier element in your community; leading life insurance men; successful young professional men who you think have no very close banking affiliations with other institutions and a few who are regarded by your bank's

RONALD RANSOM

was born in Columbia, S. C. After receiving the degree of LL.B. from the University of Georgia in 1903, he practiced law in Atlanta until 1922. Since then he has been Vice-President of the Fulton National Bank of Atlanta.

In 1918 he served in the Chemical Warfare Division of the U. S. Army and in 1929 was President, Atlanta Clearing House Association.

Mr. Ransom is Chairman, Committee on Legal Matters, Atlanta Clearing House Assn., Director, Forward Atlanta Commission, and Atlanta Chamber of Commerce, and the author of a number of articles on trust work.

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new business department as prospects for other departments of the bank.

All the names on your mailing list will receive your direct mail advertising. The list is also the feeder for a more important list which some institutions call the "prospect list." This will be those who are being called upon by your solocitors and who are in various stages along the way to closing. These names should be separated from the mailing list.

Card Index

A simple plan for handling is to record the name and all available information on a card to be filed in a visible card drawer. This can be done alphabetically with removable colored guides on the margin to indicate progress. These can be transferred to a separate drawer when ready to be closed and in this way come under immediate observation of one of the senior officers of the department who will then be sure to meet the prospect and see that he meets the other officers of the department. This impresses your customer with the fact that your entire personnel is interested in his case.

Where the official family of the bank is small, it is an excellent idea to take a prospect, whose will you have acquired, around the bank and in his presence tell the other officers that he is using the services of your department.

We use a system which enables us to glance down the card and see the name and the address. On each end of it we have colored guides which indicate the exact status of that prospect. One color indicates that he has been called upon. Another indicates that he is along the road to closing. A third indicates that he is ready to be closed and that the matter is in the hands of the attorneys or somewhere else just preparatory to the final closing.

Where the official family of your bank is small, it is possible to maintain very close contacts and you can have your prospects introduced to your trust officers as they come into the bank and follow them on out, and see them in their own offices, or wherever they are doing business. In that way they are made to feel that their trust business is of interest to other officers in the bank besides the men in the department.

The possibility of handling a case in this very personal way is an advantage that the smaller institution has over the larger one in trust work. The customer wants to feel the individual contact and the assurance that his problems are of interest and concern to the institution.

Card Records

Another plan for handling the mailing list and prospect list is to record the names on loose cards which may be in duplicate and filed both alphabetically and chronologically by the use of guides. The mechanical method used is not important so long as it assures the information being complete in every case and so long as it keeps the prospect list under constant observation and continually at work. The information should be full; it should show the relation of the prospect to the institution, both direct and indirect, what other departments he is using; officers who know him; his financial condition; all available family and insurance information; the names of his attorneys; whether he is known to have made a will; the names of any officers, directors or customers of the trust department who personally know him; his experience, if any, with the estates of others.

The card will thereafter carry full information as to the trust literature mailed, replies, calls from solicitors, information they gather and the final result.

In this way, anyone examining a card should be able to tell at once the exact status of the prospect. If the case is successfully closed, it will go into the completed file. Should your efforts produce a refusal, then the card should go into a suspense file, because a good trust man does not regard "no" as a final answer. It should be possible for any man in

the bank to pick up such a card and at once know exactly the next stage to pursue.

It is interesting to learn that in a mid-western bank merger the mailing list of the trust department of one of the banks was valued at $60,000.00.

Acceptable Estates

It does not seem advisable for southern trust departments to fix a definite minimum value for estates to be sought or accepted. It is easier to fix this value for estates which you will solicit than for those you will accept, for we must bear in mind that we cannot build trust business in our section in a day. The work should be seen as reaching far into the future.

If you share the opinion of a number of economists who believe that the development of the south will be greater over the next ten or twenty years than in any other section and realize that we are working in banks which should benefit from this development, you can afford to be liberal in regard to the value of estates which you will undertake to administer. The satisfied beneficiary of a small estate of today will be your best advertisement in the future.

The young man of today with a modest estate, or with a small amount of life insurance or with a promising professional career ahead of him is a man you want on the list of your trust customers. If you draw too strict a line on size of estates you will lose future business and present good-will for your bank. In saying this, I feel that I should add a word of caution. Commercial banking is just now gracefully retiring from many bad habits connected with acquiring volume of business and in the rendering of free service and is devoting its best efforts to profits and we should not permit our trust departments to carelessly seek new business which cannot be profitable in any way. Frederick Behrends' address at this year's Mid-Winter Trust Conference on "Valuing and Paying for Trust New Business" will repay study.

While I am discussing individual or personal trust development and not corporate trust work, it should be remembered that the latter should not be neglected in developing your department. While trust departments in smaller cities will not acquire any large amount of corporate work, many profitable opportunities will occur where the department can be used in receiverships, in occasional corporate trusteeships, and in various capacities in connection with liquidations and bank or creditor "work-outs." Occasionally you can turn a necessity into a profit by taking on such work on a fee basis.

Having located your market for personal trust business and having your first objective fixed by the names on your prospect list and your reservoir established in your mailing list, you are ready to decide on the methods to be used to distribute your product and on your sales media.

Advertising Appropriation

It is desirable to have a definite yearly appropriation for your advertising. This will enable you to prepare a carefully planned program. Continuity is essential. Expressing a personal opinion, it seems to me trust advertising is an adjunct to personal solicitation, but a very valuable adjunct and one which must be regarded as something to be regularly purchased and used every year.

At the annual convention of the Georgia Bankers Association in 1896, a speaker said—"Like a merchant, a banker has wares to sell, but he does not advertise them." It is hard to believe that thirty-five years could have so completely changed a point of view. Every banking service can and must be merchandized. The selling of trust service is no exception. The public, knowing less about these services, it is even more important for you to advertise and unless you are ready to actively develop a market for your product, you need not hope for success.

The American public has already derived substantial benefit from trust advertising. Analysis of estates; the idea of pre-administering estates; the creation of trusts; conservatism in investments; increased use of life insurance; realization of the importance of experienced advice in the planning of estates to save taxes and the importance of selecting executors and trustees and the many advantages of corporate fiduciaries are some of the thoughts stimulated by this advertising.

If your own community has not been made acquainted with these features of trust work, you will realize the necessity for laying this foundation for trust development. If you feel that these advantages of trust service have been sufficiently advertised in your own community, then you should devote your major effort to advertising your own institution.

Media

A wide field of media is open to your choice. Newspapers and direct mail are obviously the two best at this time. Charles McMahon says that newspapers reach 95 per cent of all persons in the will-making class. I have qualified my statement by saying "at this time," because no one is able to predict how valuable and important the radio or television may become in trust development. It is hardly possible that they will ever be available to all trust departments nor has the radio been used to any extent by the southern banks which could now use it.

Lobby display cards and window display cards should certainly be used. Billboards and street cars do not seem well suited for the product we are selling. Indirect news when it can be properly used is valuable and contacts with lawyers' clubs, insurance asso-

ciations and civic gatherings present opportunities for legitimate advertising.

You should not overlook advertising your department to your own directors, stockholders, officers and employees, or in acquiring their wills.

Courses in trust service presented exclusively to insurance men have been found helpful. The Atlanta Clearing House Association and the Georgia Fiduciaries Association are jointly now for the second time offering prizes for the best wills prepared by students in the senior classes of four Georgia law schools. The results have been gratifying. Faculty and students alike express interest in these contests. Many trust men of the future will come from these classes and these contests are developing an early interest on the part of our young lawyers in wills and corporate fiduciaries.

Underlying Principles

Regardless of your media, there are certain recognized principles which compose the technique of trust advertising.

You are asking your prospect to enter an intimate personal relationship; to entrust to you the welfare of those whose future is of utmost importance to him; to permit you to undertake the performance of many duties which he would perform himself if he could be given the opportunity.

What qualifications appeal to the man considering such an application? The answer to this question will give you the fundamentals of trust advertising.

It must be educational and in a dignified way must show the integrity and soundness of your institution and should emphasize its perpetual life and its superiority over the individual to discharge these services. It is not the field for competitive advertising. Many things must be left to the imagination of your prospect and to the follow-up of your solicitor.

The advertising service of the Trust Division of the American Bankers Association is valuable and inexpensive. It typifies the best and newest thought in trust advertising. It should certainly be used and will give the smallest trust department the best which can be produced and will be helpful and suggestive to the larger institutions.

The publications of this Division of the American Bankers Association and of the Financial Advertisers Association deserve constant study by trust development men.

There are excellent syndicated services from which you can buy direct mailing material, as well as newspaper advertising. The trust advertising of the large metropolitan banks should be studied. It will keep you up to date on trust thoughts. There is no line of work today demanding keener minds and the accumulated data available to the ambitious man in the smaller trust departments is tremendous. His job requires and well repays burning the midnight oil. The work is as modern in many ways as the newest form of illumination but is founded on the oldest of customs and appeals to long existing necessities and emotions.

The Trust Solicitor

The trust solicitor should have a knowledge of human nature, patience, diplomacy and ability to keep persistently but tactfully at work on his prospect and to tell his story in an interesting way, plus enthusiasm for his work.

It has been estimated that the solicitor will not be given over twenty minutes on the average for an interview. This explains the unusual qualifications required. Trust solicitors giving their entire time have not been used in the South to the extent they have in other sections, but this is changing. Solicitation is as important for the smaller bank as for the larger. If not performed by some officer or employee having no other duties, it must be carried on by the officer or officers in charge of the trust department.

Your advertising will do no more, as a general thing, than arouse interest in the subject. You are not selling a popular brand of packaged goods which the reader can walk up to the counter and buy, if your advertising has *sold* him. You can convey an idea through the printed word, but it is the spoken word and direct solicitation from some one which is necessary to close these transactions.

You are proposing that your prospect settle many perplexing personal problems and that he reach a decision made more difficult by lack of experience in most cases and in nearly all by that natural procrastination which overtakes the successful busy man when he tries to attend to his own affairs, and affairs which are wholly outside his regular routine and which lack the appealing attraction of revenue producing efforts.

Under these conditions personal solicitation is absolutely necessary if you are to get your share of the business. There is no justification for high pressure sales methods in this field. Reserve your high pressure efforts to keep your own organization going and to get through your own work, but do not apply these methods to trust prospects.

Your solicitors should be men of character because they are selling a service whose success in execution is dependent on the character of your institution and the thoughtful customer will form his opinion of your bank and of trust work from the solicitor.

Give him every assistance possible. Have the lists from which he works complete and up to the minute. If possible, have him introduced to the prospect by some officer or director who knows the prospect personally.

A letter from the President of your bank saying

the solicitor will call or a letter following his call, thanking the customer for the time he has given to the solicitor will be helpful in establishing and maintaining the contact. If it seems desirable to mail some special piece of literature, accompany it with a letter from a senior officer. Such a letter supplementing the work of the solicitor is useful and the opportunity to give this personal attention is an advantage the smaller institutions have.

There is no rule of thumb for trust solicitation. Each case will differ in some respect from every other, but if your advertising has been dignified and clear and has served at least to acquaint the prospect with the fact that you have a trust department and to give him a general idea of these services and your solicitor has acquired sufficient information about the prospect, he should be able on his first call to cover the subject in a preliminary way and to suggest some satisfactory application of the services to the prospect's own particular case. Beyond that it is a question of salesmanship. It is a safe rule to let the prospect do most of the talking if he will. This develops additional information about his family, his plans, his present will status and his favorable or unfavorable reaction to trust service. All of this additional information will be added to the information on the file card.

Every trust man knows the chief resistance points. Procrastination easily rates first but is overcome by persistence. Some vague objection which the wife of the prospect seems to have after he has discussed the matter with her runs procrastination a close second. It is not so easily overcome, but would not be so difficult if we were permitted in all cases to talk the matter over with the husband and wife together. We may in time have to have women solicitors to handle this phase of the problem.

Meeting Objections

Following these two obstacles are those objections to corporate trust service which have their origin in the prospect's knowledge that the grant of perpetual life to a bank does not necessarily mean that it will go on forever. These objections are easily answered by a full and frank discussion of the legal requirements under which trust departments operate, the past history of corporate trust work, its safety and its security and by a discussion of the condition of your own institution.

Some amendments to the existing banking laws could provide for the continued operation of the trust department in the event the parent bank suspended. If these departments are operated in compliance with existing laws, they could be easily separated in such cases and continued in operation by some designated official or institution until such time as a successor fiduciary could be appointed.

With the continued growth of trust work, the lines of demarcation between these departments and all other banking departments will become clearer and even better safeguarded than at present.

Your solicitor will meet some prospects who will have the erroneous idea that trust departments are mere adjuncts for the securities department and outlets for securities. The laws of some States fully cover this line of objection. It should be the policy of your bank, if you have a securities department, to prohibit such estate trading and this should be the answer to such objections.

It is the duty of the executive in charge of the trust department to keep in touch with the work of the solicitors and to see that the prospects are being followed through, but it is advisable to have the solicitors responsible for the handling of each case until it is closed. This involves seeing that the attorney for the customer has prepared the necessary documents and that they have been executed and filed with the bank.

It is desirable to write to each testator once a year reminding him that his will is on file and suggesting that some change in his family or financial affairs may make a revision necessary. This is protection for the customer and serves to remind him of your bank's continuing interest in his estate problems.

I do not believe it is possible to over emphasize the importance of being adequately equipped, both as to personnel and mechanical facilities to handle such trust business as you now have and may expect. Be sure that you are prepared to back up your advertisements and your solicitor's sales talks for trust business. The South is "on the spot," and a poorly handled estate by a corporate fiduciary will not only do irreparable damage to the particular fiduciary handling it but will be a severe blow to trust development generally.

In closing let me urge southern trust men operating in the smaller communities not to be discouraged because your departments are not showing immediate profits. This plea applies equally to the other officers of your bank, to your directors and stockholders. Trust business is built up slowly. It has been demonstrated however, that it can be made profitable for banks in small communities. If you are adding wills to your files and are laying a firm foundation through advertising and solicitation and above all if you are satisfying the trust customers you now have through efficient administration of their affairs, you need have no doubt about final results.

A Sound Basis for Trust Accounting

(*Continued from page* 25)

for beneficiaries at the same time that they post their principal and income cash sheets by the use of a carbon copy, and where this can be done it naturally results in a considerable saving of time. Others provide their beneficiaries and interested parties with photostat copies of the cash transactions and others continue to type such statements from their cash records. This is a matter that can be handled in either of the above ways according to which proves to be the most satisfactory.

Subsidiary Records

An adequate trust accounting system must provide for the establishment of various subsidiary records, all of which may be compiled from the basic records heretofore mentioned. Such records will comprise real estate ledgers, giving complete description of the property and all pertinent information as to the condition of the property, rents received, repairs made, insurance coverage and expiration of policies. Obviously it will be necessary to have an insurance expiration tickler and other necessary tickler records, records as to notes providing information at the proper time as to maturity of the note itself, interest payments, etc., tickler records to come up at the proper time showing when dividend and interest payments are due; amortization records where required in connection with bonds purchased at a premium, and income tax records on which is posted periodically under a proper classification the information necessary to compile proper income tax returns.

As a department grows the necessity for knowing at all times the total amount in the department of any particular class of securities is apparent. Records of this information to be valuable must be kept current at all times, should be under control and tied in with the general plan of accounting. To accomplish this a control is maintained for each separate security held in the department showing the total amount of the department's holdings in that particular security. Following this record is a record of accounts showing the holdings in each account of this particular security. Of course, a run-up of the totals of the separate account records will agree at all times with the control record for that particular security. The value of such records is very apparent since it is often necessary for the officers or the Trust Committee to know at once the total holdings of the department in any particular issue of stock or class of bond.

I have previously stated that any system that might be adopted would have to be rigidly carried out or it would lose the benefit of many of its sound features. This would, of course, involve the entire personnel of the department. In the first place the officers in the department should be familiar with the system and after the same has been adopted should cooperate with those operating it in carrying out all of its features. No plan, however sound, adequate or simple, will be effective unless it is rigidly carried out. Trust accounting is perhaps more complicated than other accounting and is a specialized field. It should not be expected that a banking department bookkeeper would be versed in the keeping of trust records. If a new department is being started and it is decided to use bank accountants for trust department work, they should first have the necessary training to prepare them for this specialized branch of accounting.

DISCUSSION

Accounting for Fees

CHAIRMAN SIMS: We have a few minutes at our disposal if anyone would like to ask questions.

B. W. DORMAN, (Assistant Trust Officer, First National Bank, Shreveport, La.): Our department is less than two years old and not very large. We use the simplified trust accounting system, which is satisfactory so far as the trust accounts themselves are concerned, but we would like to have the benefit of the experience of older departments in accounting for fees collected. We want to know some system which will enable an examination to show that all fees which have been earned have been collected and placed in the proper account.

MR. BULL: I know of no way to provide for that except to use a tickler, to see that the fees are collected at the proper time.

C. A. CHAPMAN, (President, First National Bank, Rochester, Minn.): We use the same system as the gentleman who has just spoken described and by means of the tickler, combined with the income cash sheet in each of the accounts, we are able to check the fees.

INSURANCE TRUSTS and Their Possibilities

By Hawes Coleman, Jr.

State-Planters Bank and Trust Company, Richmond, Va.

Understanding of life insurance by the trust man is going to be one of the biggest factors in his success in developing trust business.

The ability to deliver a sales talk on life insurance as readily as one on wills and trusts will bring in much valuable business that could not otherwise be obtained.

The life insurance trust must not be regarded as merely a device for caring for the proceeds of a man's insurance. Actually it affords a means of offering a "Complete Estate Plan" for all of a man's property. It enables the insurance man to sell far more insurance and the trust men to close more and larger trusts than without the aid of that approach.

Specific cases are cited by Mr. Coleman to show the real worth of life underwriter and trust solicitor cooperation.

ALL of you have heard of the remarkable and rapid growth of the amount of life insurance in force in this country in the last five or ten years and how $15,000,000,000 or $16,000,000,000 of life insurance is being written annually. You know also of the tremendous increase in the volume of life insurance trusts, particularly within the last five years. Mr. Gilbert T. Stephenson at the Mid-Winter Trust Conference last February gave us figures indicating that at least $1,500,000,000 of life insurance trusts were executed in 1930, while the total of all life insurance trusts in force is estimated at something more than $4,000,000,000.

An Interdependent Relation

Under current conditions it must be admitted that these two remarkable growths are not independent of one another but are closely related, and in fact, to a great degree, inseparable. Life insurance is the raw material we need for the creation of life insurance trusts. We advertise the advantages of the life insurance trust and thus give to our life underwriters a very tangible and definite sales point in developing the need for life insurance. They, in turn, sell the life insurance and point out to the client his need for trust services. We then obtain the trust business. Without the life insurance trust and the principles of estate conservation developed by the trust companies the life underwriter would be deprived of a valuable tool in his sales kit, and the volume of the life insurance written annually would undoubtedly be much smaller than it is. And on the other hand, if the volume of life insurance were decreased, our insurance trust new business would certainly suffer. Obviously, the production of life insurance and life insurance trusts follow each other in a so-called "vicious circle."

All of us appreciate this simple fact of the interdependence of life underwriting and trust salesmanship. But it is our problem to get the most out of the reciprocal relationship. We have done a lot of advertising to dispel the notion that the banks and trust companies are the competitors of the life insurance men and that we will in any way hinder the sale of life insurance by any investment or savings plan of our own. In fact, we have committed ourselves by advertising to a policy of endorsing life insurance and recommending its purchase. The old era in which the banker may have taken a negative or indifferent attitude towards the sale of life insurance has definitely passed. But with the development of our new viewpoint towards life insurance how many trust men, to say nothing of commercial bankers, really *understand* the product which they so endorse by their institutional advertising? This is the real point that I should like to "get across" today in the few minutes that have been allotted me, for I believe that our

HAWES COLEMAN, Jr.

was born in Richmond, Va., September 8, 1906, and was educated at Randolph-Macon College, Ashland, Va., receiving the degree of B.S. in 1926. In 1928 he graduated from the Harvard Graduate School of Business Administration with the degree of M.B.A.

Since then, Mr. Coleman has been engaged in trust development work with the State-Planters Bank and Trust Company, Richmond, Va.

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understanding of life insurance is going to be one of the biggest factors in determining our success in developing life insurance trust business.

Understanding Life Insurance

By "understanding of life insurance" is meant real appreciation of what it means to an individual and to his estate and the ability to instill in our clients the same appreciation. Bankers and even trust men are not generally salesmen in the sense that we are speaking of here, and you will find, I believe, that your trust department, to develop its maximum potentialities, must have at least one such salesman. He need not be a full time solicitor as they in the larger institutions have, but he should have the "understanding" referred to and the ability to impart it to others.

In the fall of 1929 the Equitable Trust Company of New York, since merged with the Chase National Bank, held a Trust Development Conference. Those of you who were fortunate enough to attend heard Nathaniel Seefurth, of the Seefurth Service, Incorporated, make an address that was among the outstanding ones of the Conference. In it he said that there were two viewpoints from which one could regard the development of life insurance trusts. First, the narrow view in which one could regard the life insurance trust as a device for *handling* a man's life insurance proceeds upon his death; and, second, the broader view in which one could regard the life insurance trust as a device for conserving and protecting a man's general estate and for effecting for his family or dependents an adaptable and economical plan for their living requirements.

This second view of Mr. Seefurth's illustrates exactly what I mean by the "understanding" we ought to have of life insurance and estate creation. If we are going to a prospect or a client of ours and merely take what insurance he has and place it in a life insurance trust and then recommend to him that he make a will to *dispose* of his general estate, there will be mighty little constructive estate work done in this way, and we shall also miss a great deal of good will and potential trust business that might easily come our way. Rather than do a lot of abstract talking I should like to cite three or four actual cases that will illustrate what I am driving at far more effectively than any theories that could be advanced. Large sized or special cases have not been chosen but only such cases as are typical of average ones to be encountered throughout the South.

A Typical Case

A few months ago the manager of one of our branch offices in Richmond asked me to go to see a depositor of his branch who owned some life insurance and who made a fair-sized salary. This gentleman had expressed a casual interest in the subject of wills one day while at the bank. Upon calling on this prospect it was found that he had a wife and three children, a small amount of real and personal property, and about $15,000 of life insurance. He wanted to find out from us what to do with these financial assets upon his death, his idea being to pool them all and have a will *disposing* of them. As soon as the facts in his case had been ascertained, I proceeded to talk with him about minimum family requirements, what he was doing with his surplus annual income, possible methods of building and increasing his estate. We had an hour and a half of it without mentioning wills or trusts or anything of the kind and talking only about his need for additional life insurance.

The long and the short of it was that he asked me to come back at an appointed time three days later and bring with me a certain life insurance agent whom he named. His wish was complied with, and the agent and I went to his office together at the proper time and secured his application within twenty minues for $20,000 additional insurance, whereupon we took our departure. The insurance was delivered, and at a subsequent interview we planned with him a life insurance trust fund and a will for a $35,000 guaranteed insurance estate rather than one for $15,000.

Needless to say, the insurance agent was highly enthusiastic over our methods, and he remarked to me that in almost twenty years in the business he had

never obtained an application as easily. This case was small in itself, but since then this same agent has on his own initiative practically closed and brought to us two very nice trust prospects whose business is now on file with us. Selling the agent and the estate creation idea in the original case has meant to us a good deal more than selling the client.

A High Salaried Man

Here is another case in point. An insurance man gave us the name of a gentleman receiving one of the highest salaries paid in our community. The agent stated that he did not know much about him other than the fact that he had been tackled by a number of insurance men and that he did not have insurance in any degree commensurate with his income and needs. After a visit to him, it was found that he had only approximately $20,000 life insurance and other small personal assets despite the fact that he and his family were living on an unusually comfortable scale. We discussed with him the merits of life insurance as an estate building plan and as compared with other plans. His idea was to buy a small amount of insurance and set up a life insurance trust with us with the thought that he would purchase stocks and bonds over a period of years and build an estate. After a two hour interview, I was allowed to send for the insurance man who had sent me to see him, and a few days later this agent secured an application from the prospect for $80,000 additional insurance upon the first interview. We now have this man's life insurance trust for $100,000, and he has thanked us on two separate occasions for our exertions in his behalf. Our company, the client, and the life insurance man are better off because of this procedure, whereas if we had regarded the life insurance trust as a device for *handling* his life insurance, we would have had today his life insurance trust for only $20,000 or $30,000.

When Policies Are Numerous

A life insurance agent once came into the bank and told us of a man whose insurance estate consisted of $40,000 or $50,000 of all sorts and kinds of policies, some with loans and some without, some with disability income and some without; in short a mixture of every sort of policy from term to endowment. He said that he had worked out an elaborate plan for this gentleman showing him how the policies could be put into the best shape and had outlined all the necessary figures and facts as to how this could be effected. Upon his suggestion we made a "cold" call upon the prospect on an "Estate Planning" approach. He produced the written presentation which the agent had left him and said that he did not know how the trust company could help him just then since he had this insurance matter to straighten out and since there would be some delay because he had been advised somewhat differently by two or three agents as to what he should do. After a few minutes' conversation I was able to demonstrate to him that we possessed accurate knowledge in this respect, and before the interview was over we had analyzed together the whole situation, and he had decided what he wanted to do. Wills or trusts had never been mentioned. At the end he asked how he should have his policies payable, and when I had outlined for him in a few minutes what we would recommend in such a case, he accepted the plan without a murmur and the trust business had been secured for us. The whole sale was made through familiarity with the details of the life insurance contracts. This established his confidence at once and he left planning of the trust to us. Incidentally, $10,000 more life insurance was placed by the agent mentioned, and this did not harm our reputation as far as the agent was concerned.

The Case of a Physician

One more case ought to be mentioned—that of a physician with $16,000 insurance. The insurance agent in the case had sold him on the idea of talking with us. It was soon evident, from the facts he gave us, that he needed a $50,000 minimum estate and could in all probability pay for it right then. Such a sum was so far above what he had been thinking of that I felt we would lose his confidence by startling him with the suggestion of taking out sufficient insurance to bring his estate up to the amount stated. Accordingly, after a talk entirely on the subject of family needs and estate building, I left him with the promise that we would prepare a rough draft of a plan for an estate consisting of about $30,000 life insurance and with the idea that the plan would be regarded as only temporary. It could be replaced by another plan two or three years later when he would increase his life insurance to $50,000. In order to put this temporary plan into force, of course, he would then have to purchase only about $15,000 additional insurance. With the results of our interview in mind the insurance agent called on him the next day and continued to develop a plan for the ultimate acquisition of a $50,000 insurance estate. After his talk with the prospect the agent had a conference with us, and we called the physician on the telephone and told him that in view of two or three points brought out by the agent subsequent to our interview with him we felt that another conference would be desirable before deciding definitely on what type of trust plan to pursue. After one more interview with the trust representative the $50,000 plan was sold, and we now have the life insurance trust for more than $50,000, while the agent sold a $35,000 policy instead of the one for $15,000.

"Estate Planning"

Many more such cases could be cited showing how the life insurance approach has developed desirable trust business, but probably the illustrations given are sufficient to indicate to you that this sales plan has its merits. We cannot use such an approach in every case, of course, but when a situation is ripe for a discussion of this kind with the prospect, we, as trust men, ought to be able to deliver a sales talk on life insurance just as readily as we can deliver one on life insurance trusts or wills, for all of them are elements in what we call Estate Planning. All of you know that a good many of the leading life underwriters in every community are familiar to a certain degree with life insurance trusts and other topics relating to our business. Some of the best of these agents use what they call estate approaches and life insurance trust approaches. In other words, they utilize a knowledge of our product to sell their own, and many of them are very successful with this procedure. In like manner, would it not seem just as desirable for us to have in our sales kit a life insurance approach and use our "understanding" of life insurance as a means for furthering our own business? It ought to work one way just as well as the other, and if we give more thought to this type of sales presentation, we ought to be able to increase our sales efficiency to a much greater degree.

There are a good many very definite results that such a sales policy will accomplish for us. In the first place, a trust institution that understands life insurance and that uses this understanding in a tangible way by showing its clients and customers the real need for life insurance in specific cases, is certain to earn the gratitude and active cooperation of the insurance agents of its community. We do not have to favor any individual agents or any particular life insurance company in order to get this result, and you will find that the life underwriters in the community will be quick to realize it when you begin exerting impartial but sound sales effort in their behalf. With our institution the value of this type of approach has been proved beyond a doubt. The life underwriters are bringing us as many and sometimes actually more cases than we can handle as promptly as we would like.

Advantage of Disinterestedness

The real worth of such life underwriter cooperation can hardly be overestimated. Knowing that we make these life insurance approaches and feeling that we can frequently from an unbiased position carry more weight with the prospect than they can themselves, the insurance agents often attempt to sell the prospect on the trust institution and the idea of talking over his situation with us, leaving it to us to make the insurance approach.

This attitude taken by a good many of the life underwriters of our community has illustrated very forcibly one definite sales fact that we believe is invaluable to any trust institution seeking to develop this kind of business. The principle is just this: that a life insurance agent can frequently do more in a few minutes to sell your institution and its trust services than you might do by all your efforts and advertising over a long period of time, and on the other hand, that a trust man with an appreciation of life insurance and a well developed sales talk can in many cases close the sale of a policy where a life insurance agent never would. It is just human nature for a good many individuals to react in this way by giving serious consideration to one who apparently has no interest in the matter but who seems well informed, while turning a deaf ear to a really capable and reliable individual presenting the same proposition with a definite interest in making the sale. I could cite you case after case in our own trust development experience where the insurance agents with comparatively little knowledge of our business have sold prospects that we had tried in vain to sell on numerous occasions.

Trust Company Gets Best End

The trust company gets by far the best end of this reciprocal sales advantage by reason of the large number of insurance agents at work. The more of them we can sell on our methods, the more of them we can expect to be, in effect, salesmen for us. One of our representatives has found a good many instances in which, upon making a cold call upon a prospect, he has been greeted with a statement from the prospect to this effect: "I am glad to meet you. I have heard a lot about you and your trust department and I have been wanting to talk with you for a long time." This reaction on the part of such prospects has been traced directly to the work of the life underwriters of the community. When a man hears over a period of months from four or five different sources of the work your institution is doing, no matter what those sources may be, he is bound to react favorably to it just because of the repetition which tends to confirm what he has already heard. It is the finest kind of advertising we can do, and it will pay us well to cultivate the life underwriters and develop this attitude on their part. Developing a life insurance presentation and letting the underwriters know that you are using it is the best way to get them on your side.

From our standpoint when volume and long-run results are considered, the life insurance trust ought to be the most desirable form of personal trust busi-

(*Continued on page* 44)

COMPENSATION FOR TRUST SERVICES

By C. F. Zukoski, Jr.

Vice-President and Trust Officer, First National Bank, Birmingham, Ala.

Trust departments of banks must in the end pay their own way. Costs must be accurately analyzed and fees readjusted accordingly.

In the acceptance of new business, care should be exercised either to reject non-profitable business or to make an increased charge wherever unusual difficulty is presented.

Mr. Zukoski presents the fees recently adopted by the Alabama Fiduciaries Association and suggests that the best guide available for the determination of costs is that prepared by the Trust Company Division's Committee on Costs and Charges.

Of the three methods of quoting fees, he considers that based on a percentage of principal value on the whole preferable to the other two.

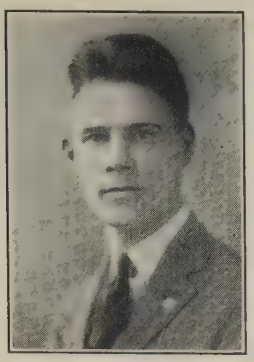
THE task of inaugurating trust departments in our southern banks and trust companies has been largely the work of the last ten or fifteen years. Trust departments in some of our institutions, of course, date back to times before the war. Their number, however, is few, and the volume of business they transacted in earlier days was comparatively small. Only in the past four years has trust business in the South been great enough and has the number of trust institutions been numerous enough to support the formation of a Southern Trust Conference.

In the development of this new function in banking it was but natural that emphasis should have been placed in the beginning upon the organization of departments, upon the selection of personnel, upon methods of accounting, upon policies to be pursued, upon plans for getting business, rather than upon the measure of compensation for the services rendered. This was true in the first place because it was recognized that no profit could be reasonably expected for a time, and in the second place because there was no experience upon which a scale of fees could be based. There is justification therefore at this meeting of our southern group to stop for a moment in our consideration of practice and policy to discuss profits and how they may be got at.

In deciding upon charges for their trust services, southern banks of course had the experience of the North and East to draw from. Trust business is essentially the same everywhere. But trust work in the South has its peculiarities. The country until lately has been largely rural and agricultural. Large accumulations of wealth in the form of intangible property have been rare. Banking institutions and their trust departments have been small. Trust services have therefore yielded less to standardization and have tended more to take the form of specialized attention to individual problems than in the North. It is consequently not strange that trust fees have differed in the two sections of the country and that attention has been given to prevailing differences in fixing them.

Determining Costs

The problem, after all, in the South as elsewhere is one of arriving at the cost of the service and of allowing a fair margin of profit over and above that cost. The difficulty lies in determining what cost is, and in allocating to the different types of trust service their proper portion of the burden. For trust service is not rendered in most cases in a day, or in a year; it is varied and runs over comparatively long periods. How much time is given to any particular trust or estate, what part of the work is official, what part clerical, what degree of responsibility is involved, are all matters difficult of measurement. And the calculation of total cost of operation, involving as it does a segregation of the proper part of such items as the institution's total rent, overhead expense and advertising outlay, is by no means free from difficulty.



CHARLES F. ZUKOSKI, Jr.

was born in St. Louis, Missouri, Sept. 24, 1898. He was educated in the public schools of the City of St. Louis and attended Harvard College and the Harvard Law School, receiving the degrees of A.B. and LL.B. In 1921 he began the practice of law in the City of St. Louis with the law firm of Bryan, Williams & Cave. From 1924-1926 he practiced law in St. Louis. Since 1926, he has been Vice-President and Trust Officer of the First National Bank of Birmingham, Alabama.

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Until sufficient size can be achieved, where departmentalization and cost accounting by divisions are possible, it is doubtful if any very exact basis of compensation can be ascertained. We are faced, nevertheless, with the necessity of treating with things as they now are and of fixing fees, even on incomplete data, upon a scale which will return a profit. Our problem then, is to go to some trouble to determine with reasonable accuracy what our trust departments are costing us, and given that cost as a starting point gradually to adjust our charges to yield a fair surplus.

For a new trust department, the initial step in building a fee schedule for trust services obviously is to adopt the schedule of some other institution or group of institutions operating under similar conditions. In many cases the fee schedules worked out by the Trust Company Division of the American Bankers Association and by state fiduciary associations will be a fair guide. As to some types of service, the fee schedules of the larger metropolitan trust institutions will prove helpful. Care should be taken, however, to recognize the peculiarities of the southern and the local situation and to adapt to those peculiarities any schedule used as a working basis.

For trust departments which have had the benefit of some years experience of operation the first step in a reconsideration of fees should be an analysis of costs. What is the institution actually expending in the maintenance of its trust department? The best guide for that study which I have found available is the report of the Trust Company Division's Committee on Trust Costs and Charges published in the Proceedings of the Mid-Winter Trust Conference held in February, 1930. In that report the items of cost which should go into the analysis are carefully enumerated and discussed and the basis is laid down for an adequate computation of trust department costs as a whole. It is my belief that every trust department should at least once annually calculate its costs for the year upon such a basis.

The Plan Suggested

Just briefly let me describe the plan laid out by that committee: A great many of our costs of course will occur to you at once. You have your salaries, you have your stationery expense, you have various items of outgo for advertising. All of those can be exactly computed. You will have difficulty, however, in figuring such items as rent, how much of the institution's rent shall be charged to the trust department. Shall all of the outlay for advertising devoted to the trust department be charged to the trust department or has a part of that advertising institutional significance which would require some allocation of costs between the institution as a whole and the trust department? What part of the general overhead of the bank should be charged to the trust department? The executive officers of the bank of course give some attention to the trust department. They supervise its activities. What part of their salaries should be charged to the trust department?

None of those matters can be very accurately computed, but they must be computed and set down if we are to have any very accurate idea of what our trust departments are costing.

On the item of general overhead, the committee has suggested that fifteen per cent of all other expenses of the trust department be added in as a further expense attributable to general overhead.

That plan should be carefully studied and the cost of operating the department determined with reasonable accuracy.

Having worked out the total cost of operation and knowing from the fees and commissions account the gross income of the department, there will then be available fairly accurate and convincing evidence of profit or loss. Weight will of course have to be given to any unusually large fees which may have been collected or to any unusually large items of expenditure. Due allowance must be made for services of consequence which were rendered but not paid for during the period under examination. Particularly in young trust departments we may have items in any one year which throw the whole calculation out of joint. We may have had some unusually large

fee which is not normal at all, and of course consideration would have to be given to that. The adjusted result, however, will throw considerable light on the adequacy of the existing fee schedule as a whole.

There is at once suggested, of course, the question of how large the profit should be. The Committee on Costs and Charges sent out questionnaires to a number of banks throughout the country, asking them to enumerate gross earnings and also to calculate their costs on the basis which the Committee had worked out. Of the banks answering these questionnaires 21 per cent showed net earnings of over 50 per cent of their gross, 21 per cent showed net earnings of 25 per cent or less. The average showed net earnings of approximately 37½ per cent of gross profits, which the Committee regarded as a fair yield. The responsibilities and possibilities of loss involved in trust work are such that a comparatively large return is well justified.

Fixing Compensation

Fundamentally there are three underlying means of fixing compensation for trust services. One is to provide for reasonable compensation to be determined as the volume and responsibility of the work become definitely known. A second is to take a percentage of the income which the trust actually earns. A third is to charge a percentage of principal value handled.

One banker, writing recently of the failure of trust departments to show satisfactory returns, ventured the opinion "that individual trust business will not be profitable to the average bank until such time as its fees are based on the time and energy consumed in handling the estate rather than on the number of dollars handled for the estate." The difficulty with this view, sound as it seems in theory, is two-fold. In the first place, even after work is done and some definite idea of the volume and responsibility involved is at hand, the department is still confronted with the difficulty of valuing professional service and of finding some yard-stick with which to measure it. In the second place, experience has shown that the "reasonable fee" basis leaves the door wide open to indefinite bargaining between trustee and beneficiary, with the trustee constantly confronted with dissatisfaction and even litigation.

The fee based on a percentage of income, while offering the advantage of compensation commensurate with returns earned for beneficiaries, often is not fair to the trustee. Many trusts, consisting of real estate, local stocks, or other property earning little or no income, involve more labor on the part of the trustee than do other trusts of equal value, consisting of income-bearing securities. In such cases the return to the trustee is inversely proportioned to the size of the service rendered.

The Best Basis

The third basis for fees, a percentage of principal value, seems on the whole preferable to the other two. Incorporated in the instrument itself, it saves the creator of the trust doubt as to what he is going to pay for the service. It avoids possible later conflict with beneficiaries. It bases compensation upon a factor, namely, the size of the estate involved, which is much more likely to approximate the value of the service than is the amount of income which the trust for the time is able to earn. In some cases, perhaps, estates involving a large principal value, have small income and require comparatively little attention, and in these a combination of the percentage of principal and the percentage of income methods may be desirable.

Specifically it may be of value to consider briefly one schedule of fees which the writer has assisted in formulating. The schedule adopted by the corporate fiduciaries of the City of Birmingham has been tentatively adopted by the Alabama Fiduciaries Association and fits conditions which probably prevail in other cities of our Southern Conference. A copy of it may be had by writing to any of the larger Birmingham, Montgomery or Mobile banks.

Fees for acting as executor, administrator or guardian are fixed by court in Alabama in accordance with statutory provisions. No schedule for such services was therefore attempted. A like situation probably prevails in most other States of the South.

For acting as trustee of testamentary or voluntary trusts, or as agent under general powers of management, the compensation shall be ½ of 1 per cent of the fair value of the principal of the estate per annum, or in cases where the fair value of principal cannot be easily ascertained, 5 per cent of the gross income, payable annually, plus 1 per cent of principal for every 5 years or fractional part thereof the trust may continue, not to exceed a total of 5 per cent of principal, payable on termination of the trust. In some cases where the income is small, beneficiaries may not agree to the one-half of one per cent principal basis. In that case it is desirable to compromise and to base compensation for the time being on income and when the trust ends, reimburse the trustee for the deficiency, out of principal.

In insurance trusts the fee shall be ½ of 1 per cent per annum of the fair value of the trust estate, except in cases where the trustee's duty is to distribute the proceeds of insurance immediately, when a fee of 1 per cent of the fair value of the trust estate shall be charged. A termination or withdrawal fee is also desirable, although possibly not practicable in many cases.

I think some banks charge an acceptance fee in the case of insurance trusts. A great deal of work is involved in setting up an insurance trust and

sometimes the insurance trust is withdrawn. I think all of us have experienced some withdrawals and diminutions in these times. It would seem fair to charge an acceptance fee and a withdrawal fee, but there is a good deal of resistance met along that line on the part of the public in charging those fees and we have felt for the time being that the development of the business could be carried on more successfully by not making them.

In all trusts, testamentary, voluntary or insurance, a minimum fee of $100 per annum shall be charged, except in the case of a trust consisting of cash or readily convertible securities, when a minimum fee of $50 per annum shall be charged. We don't refuse any trust on the ground of its size, but we do point out that we have a minimum fee which will be charged, irrespective of the size of the trust. It is a much better method of refusing business than saying, "We are not interested in small business."

In escrows, fees shall be based upon the actual services to be rendered, with a minimum of $10. In safekeeping accounts the fees shall run from 1/10 of 1 per cent to 1/20 of 1 per cent per annum in the case of bonds and stocks, depending upon the total amount and size of blocks involved, with a minimum of $25.

Schedules covering corporate work are more complicated and do not yield to brief treatment. They include in general an acceptance fee, compensation based on current work and a closing charge. In working out these schedules, detailed standardization covering every item of service is definitely possible.

Types Inadequately Compensated

The real difficulty in building up a satisfactory fee schedule arises when it is sought to discover what types of business are inadequately compensated. Given an unsatisfactory total profit, where does the cause lie? Unless the volume of business is such that it can be departmentalized, a condition not obtaining in many southern trust institutions, it will be hard to know which business has been profitable and which has been conducted at a loss.

The search may well take the form of an analysis of typical individual cases, distributed among the various kinds of service which the department is rendering. In such cases, complete history cards may be made, listing every step taken and the time given by officers and clerical staff. This record may be supplemented by computations of the number of bookkeeping transactions, of postage, of stationery expense and of other items of outlay, and the whole may be increased by an allocation of a part of overhead expense. The resulting figure will in many instances be illuminating when compared with the amount which the cases have earned.

It will be found in the average trust department that a considerable volume of work is conducted for other departments of the institution. Escrows are handled, securities are held in safekeeping for commercial customers, the department acts as agent for transfer of the institution's stock. Arrangements should be worked out whereby all of these services are placed upon a compensatory basis and whereby the fees are charged either to the outside parties served or to the department of the institution at whose instance the work is done. Every piece of work done by the department should be charged for. I think all trust departments, particularly new ones, run into that difficulty. We have taken over a great volume of safekeeping accounts where the bank was not receiving a cent of compensation. We are billing the bank now regularly on the regular basis for those services and I believe it will only be a short time before the bank will see just how much it is spending on a doubtful method of creating good-will.

Care in Accepting Business

In the acceptance of business involving uncertain or unusual features, care should be taken to place the compensation of the department on a tentative basis, subject to adjustment later as the precise nature of the work becomes known. Many accounts which are otherwise satisfactory involve more attention and more responsibility than is at first apparent. This is particularly true of special agencies and voluntary trusts and of certain types of corporate work. The avenue should be left open in such cases for enlargement of the compensation should circumstances justify it.

Too much emphasis cannot be placed upon the desirability of a careful selection of business. The temptation to take everything which is offered, especially in the new trust department, is great. The temptation to solicit all kinds of prospects, large and small, just to be able to report so many new wills and so many new trusts, is not always sufficiently resisted. Yet an analysis of the accounts of many institutions will undoubtedly reveal that their unsatisfactory margin between total costs and total income is not the result of an inadequate fee schedule but rather the consequence of a multiplicity of troublesome business. The clean-cut trust, consisting largely of seasoned bonds and well selected mortgages brings in just as large a return as the semi-insolvent estate of real property equities, and at the same time involves far less labor and responsibility for loss. Trust institutions must of course handle some bad with the good, but a more frequent rejection of involved business or increased charges wherever unusual difficulty is presented, will undoubtedly strengthen the profit and loss account.

Where individuals act as co-executors or co-trustees with the corporate fiduciary, the latter will in most cases carry the burden of the work and should receive

the full compensation which it would take if acting alone. The fees fixed by the schedules adopted should not be taken to include fees of attorneys, brokers, real estate agents or of other persons employed by the fiduciary to render service not reasonably required of the fiduciary, or expenses for travel, telegrams, court costs and other outside items.

In some cases competition with other fiduciaries will make it difficult to adhere to schedules adopted. In others, unfamiliarity of the public with proper charges will have to be broken down. Everywhere it would seem desirable for fiduciaries in any given area to cooperate in the formulation of uniform schedules.

Trust departments of banks must in the end pay their own way. Their responsibilities are such that they cannot merely exist as incidental adjuncts to banking service as a whole. We must get at our costs, and re-examine our fees, always aiming at a relationship between them fairly reflecting the increasing functions which we are assuming. If we are honest and intelligent in the analysis we will win the approval of the public we serve.

Insurance Trusts' Possibilities

(*Continued from page* 39)

ness that we can develop. It can be handled in a clean and efficient manner without the difficulties and perplexities that confront us in the settlement of estates as executor or administrator. Furthermore, we can get a good commission for our services. Today the young business man and the young professional man can with their incomes create immediately estates that are desirable for us to handle, and when one considers the standards of living that are enjoyed by not only those with large incomes but even by those with small incomes, it becomes clear that life insurance is the best way and in many cases the only way in which these people can create estates. This is just what we want them to do, and that is why we ought to get behind the idea of life insurance and develop it for all it is worth. The more insurance we can help the underwriters sell, the better off we will be; and the more money we can get the average man to put into life insurance the better off he and his family will be. Life insurance means such a definite thing to the individual, and it means such a definite thing to us that we ought to give it serious thought in planning our sales campaigns.

The Objective

The life insurance age is just beginning, and the conception of the life insurance trust has already served and will continue to serve as a kernel around which the bulk of our sales thoughts and life underwriting ideas will grow. As Mr. Seefurth said, the life insurance trust is not just a device for handling life insurance proceeds. It is more than that. The life insurance trust is really the basis of *trust company-life underwriter* cooperative endeavor—it is as valuable a concept to the one as to the other. It is not the immediate goal in a sale but it is a by-product frequently obtained in working out an estate plan. The by-product of value to the trust company is the life insurance trust, while the by-product of value to the life underwriter is life insurance. The thing to drive at is the Complete Estate Plan. In a given case neither a life insurance trust nor new life insurance may result. In another case both may result. The important thing for us is this: be prepared in each case encountered to develop the full potentialities—have at your command whatever sales approach is best for the individual case—and in the long run your life insurance trust business is bound to grow. The trust company that becomes the most life-insurance-minded will have a big start on the others.

Let me thank Mr. Sargent and the members of the Southern Conference both on my account and on behalf of the State-Planters Bank and Trust Company for the privilege of being allowed to present this talk today. We at Richmond have followed very closely the several annual Conferences of the Trust Company Division. The papers and talks with reference to estate planning and trust new business development have particularly interested us. We are glad to admit that a large measure of the success we have had with our sales methods is a result of information presented at these meetings. We are grateful for the access we have had to this exchange of ideas, and it is our hope that by our participation in today's program we can return in some small measure the benefits we have derived.

DISCUSSION

New Sales Manual

CHAIRMAN SCULLY: There are two or three matters that pertain to the subjects of the papers this morning that you might be interested in becoming familiarized with as a result of the meeting of the Executive Council which has just been held in Augusta.

The first is that the Division has just published a new Sales Manual for the Solicitation of Trust Business, which comprehends the questions gotten out a year ago, but now includes the answers to all those questions. I think you will find it very interesting and instructive.

Study of Costs and Fees

In connection with the subject of costs, the Committee on Fees is making an intensive study, as Mr. Zukoski has reported. Two of the members of the Executive Council reported that auditors who are representing the Division in making this study had called at their institutions, one in the Middle West and one on the Far Coast and had given them most illuminating and instructive information about the costs in their own institutions. I am confident that when the ultimate report of the Committee on Fees is prepared and filed it will have in it very valuable information for all of us.

In examining the report of Mr. Theis, Vice President of the Guaranty Trust Company, who was chairman of that Committee, in the proceedings of the 1930 Mid-Winter Trust Conference, I was also interested in a very illuminating paper by Senator Roseberry, of California, who presents the standard fees for the same classes of service that are applicable in different parts of the country. It is quite extraordinary to find that what they get a very substantial fee for in California, for instance, is compensated at a very low rate in Boston, and there are of course all sorts of intermediate rates charged. I think you will find it very illuminating and very interesting to study the fees that are applicable to the different classes of trust service in your own particular territory and see whether or not they are comparable with the fees that are charged for the same class of service in the other parts of the country.

Uniform Change of Beneficiary Form

The Committee on Insurance Trusts is engaged in negotiations with the Association of Life Insurance Counsel in an endeavor to work out a uniform change of beneficiary blank that will simplify for all of us the mechanical operation in putting insurance trusts into effect. The present status of the matter is that the Association of Life Insurance Counsel has addressed an elaborate report of one of their committees appointed specifically for this purpose to their members. They expect to allow an interval of six months to elapse in order that their own membership may have experience and may express their views on this uniform change of beneficiary blank, and we hope to receive the report of that organization to our Insurance Trust Committee, and to do some intensive and concrete work with them some time before the fall. I am in hopes that before the next Mid-Winter Conference we shall be able to present to the membership of the Trust Division something definite and tangible in the way of a uniform change of beneficiary blank that will simplify our work in putting insurance trusts into effect.

Now, gentlemen, I am sure the speakers will be glad to answer any questions that any of you have.

H. F. PELHAM, (Vice President, Citizens and Southern National Bank, Atlanta): I don't see Mr. Ransom in the audience just now, so I can't ask his permission to add these facts to the general statement of solicitation in that topic which he handled so well yesterday.

Pacific Coast Averages on Wills and Trusts

One of the West Coast trust companies in analyzing its work for 1930 found the following to be the facts, and I believe it is well to put this into our record:

The average age of the testators was 55. The average age of the trustors of life insurance trusts was 43.

The sex of the testators—51 per cent male; 49 per cent female.

The value of the estates of males was 41 per cent larger than the estates of females.

The percentage by value of estates to be left in trust under wills obtained by the trust solicitors was 64 per cent. The percentage by value of estates left in trust under wills obtained by the trust department was 49 per cent—and I assume that included cases where the estate came in and then the trust department by its official administration convinced them that the estate should continue in part or in whole as a trust.

The average duration of private trusts was 18 years. That bears out some previous experience quite closely, worked out by Mr. Tresckow of the Central Hanover in New York.

The average duration of testamentary trusts was 11 years.

The average duration of testamentary trusts after the elimination of trusts in which there was no expectancy (in other words, where the trust would transpire almost at once owing to the beneficiaries coming of age prior to the testator's death) was 14 years.

The periods in life during which testatorship was expected, in other words, where the will was executed, were roughly as follows: from 2 years to 30, and from 30 to 40. The percentage was comparatively low. Females, 52 per cent and 58 per cent of males drew their wills.

Between 40 and 70 is the interesting brackets. Three brackets of 16 years each total approximately 70 per cent of the wills procured by an institution during 1930. From ages 80 to 90, 18 wills out of 1,000, or 1.8 per cent; and from 90 to 99, 1 out of 1,000.

I am taking your time to put this into the record because I feel it is information upon which our solicitation can be based somewhat. I haven't permission to use the name of the institution that gave these figures, but I can say it is one of the leading West Coast trust institutions.

CHAIRMAN SCULLY: I presume in giving the figures there with respect to the duration of the trusts, the number of years is based on the expectancy, according to the American experience table of mortality.

MR. PELHAM: That is not stated, but I would gather from their figures that that was what their actual experience is working out.

CHAIRMAN SCULLY: I should think it would be almost impossible for them to have in their files a sufficient number of trusts for specified terms of years to enable them to produce any such figures as those, ordinarily, as we all know trusts aren't created for a period of years in gross but they are created for life-times, and I assume therefore that those figures must be based on some experience table of mortality.

MR. PELHAM: They use the word "was," so that shows the past, which would lead one to believe——

CHAIRMAN SCULLY: I thought this referred to prospective business.

MR. PELHAM: This is their new business report, probably down to about the sixth question. Then it changes to "was," down through there, and I assume their trusts were based on that.

CHAIRMAN SCULLY: I didn't quite comprehend that and am obliged to you for straightening it out. Thank you very much.

Are there any other questions, gentlemen?

Competition From Insurance Companies

RICHARD S. ROGERS, (Trust Officer, The Wilmington Savings and Trust Co., Wilmington, N. C.): In connection with Mr. Coleman's address on life insurance trusts, we find very frequently that we have strong competition from the insurance companies who are engaged in practically the same type of business. I should like to know how that problem is met.

MR. COLEMAN: Do I understand you to mean the settlement options versus life insurance trusts?

MR. ROGERS: Yes.

MR. COLEMAN: We have always felt and told the life underwriters in a number of public meetings that we have had that each case must stand on its own merits, and that we will endorse settlement options just as freely as we will life insurance trusts. A number of cases may be cited where we have done so, rather than take the insurance trust. I think it depends largely upon the size of a man's insurance as compared with the size of his general estate, also the number of companies in which he has his insurance policies, and the relative advantage of having several plans made by several companies as compared to consolidating them in the life insurance trust. And of course as all of you realize the insurance trust can be adapted to so many more situations than can the settlement option.

Discussion on Co-Mingled Funds

(*Continued from page* 9)

will get Fund "C" from Mr. Perkins' company, and the Equitable Fund "A" from our company, you will have the two methods of dealing with the same problem; the incorporated method in New York and the unincorporated method in Delaware.

Authorization to Invest Funds

C. F. ZUKOSKI, JR., (Vice-President, First National Bank, Birmingham): Mr. Chairman, in organizing your fund of mingled investments, do you permit of investments in those funds where you have not specific authority to do so?

Assume a case where you have general powers of investment to invest in any stocks, bonds, or

other property. Do you in those cases, where you are not in addition specifically instructed or authorized to invest in a pot of mingled investments, actually participate in it?

PRESIDENT STEPHENSON: Answering for the Equitable Trust Company, we do not invest in Equitable Fund "A," which is our discretionary fund, unless we are expressly authorized to do so either by the will or trust agreement and we do not regard a general investment power as sufficient. With regard to investments in Fund "B," which is made up entirely of legals under the Delaware statute, we do invest in Fund "B," even though we are not expressly authorized to do so, the assumption being that we have the informal advice of the court (not the formal) that investment and participation in a fund composed exclusively of legals is equivalent to investment in legals.

Mr. Perkins, what is the practice of your company with regard to Fund "C"?

MR. PERKINS: We invest in no case, unless it is specifically provided.

MR. ZUKOSKI: Does your Fund "B" contain merely bonds?

PRESIDENT STEPHENSON: Bonds and mortgages, because we have no authority under the statute to invest in stocks of any kind.

Taxation of Co-Mingled Funds

R. M. SIMS, (American Trust Co., San Francisco, Calif.): I would like to ask Mr. Perkins and Mr. Stephenson what are the income tax features of their co-mingled funds?

PRESIDENT STEPHENSON: Answering for the unincorporated fund, the Department of Revenue has held that the unincorporated fund is not itself a taxable entity and that the income declared into the trusts does not change its taxability, by reason of the fact that it comes out of a co-mingled fund but retains the character that it had in the co-mingled fund itself. Will you answer for the incorporated fund, Mr. Perkins?

MR. PERKINS: Income tax, of course, is payable by the person who survives and receives the income. We believe we have barred the corporation tax by making the investment largely in bonds and a small amount in common stock of the corporation, so that the corporation doesn't have to pay any large income tax, or double tax.

Problems in Estate ADMINISTRATION

By Gordon L. Groover

Vice-President & General Trust Officer, Citizens and Southern National Bank, Savannah, Ga.

Problems most frequently encountered by trust officers are those which arise in dealing with beneficiaries. These are inherent in the human responsibilities and relationships from which the personal trust business derives its source, and no set rules can solve them.

Other problems of a more technical nature, discussed by Mr. Groover, are those which must be solved: (1) when disposing of a minority stock interest owned by an estate in a close corporation; (2) when determining fairly the respective rights of life tenants and remaindermen; (3) when managing or disposing of the assets of going businesses owned by estates.

IN considering this subject we must not lose sight of the fact that trust business is different from every other business in the world. The trust department of a bank is as different from the commercial department as night is from day. A man may be an excellent officer in a commercial bank and be wholly unsuited for the position of trust officer. The commercial banker deals with the man who owns the property in person, and who explains to the banker what his plans are. If, after discussing every phase of the proposition, they do not agree, there is no harm done.

Basis of Trust Service

How different it is with the trust officer. A man has spent long years and made many sacrifices to amass a fortune, has held on to it until his eyes have grown dim, and his grasp relaxes. He is called upon to answer the last summons and can no longer direct his affairs. But does he stop there? No, indeed. After he is cold in death, he turns his estate over to his executor and trustee, and says: "My service is done; I select you to carry on for me. But I am going to inject my will into the future and your job is to carry it out to the letter." There is nothing wrong in this; in fact, it is the outstanding achievement in a man's life. The most unselfish thing in the world one can do is to create an estate during his lifetime and leave it for those who must remain after him; for the only reason any man can have for doing this is that someone may have an easier time and be better equipped to meet life's responsibilities.

In considering the disposition of his property it usually hinges around those who are bound to him by the ties of blood and affection. He wants the devoted wife who has shared his joys and sorrows, his hopes and ambitions, to be as free from care as possible; he wants the boy, on whom he has centered all of his ambition, saved some of the hard knocks that he received when he started out; he wants the girl—and what tender affection there is between father and daughter—to be spared some of the sacrifices that her mother had to endure when she was young. You can not get away from these close relationships. No orphan asylum or university was ever endowed except for the sole purpose of giving some boy, some girl, a better opportunity than they otherwise would have had.

I say, therefore, that the outstanding act of a man's life is when he arranges to make proper disposition of the money he has accumulated during the years.

Dealing with Beneficiaries

I have taken up too much time in leading up to my subject, but I wanted to bring out the source from which we trust men derive our business, and the great responsibility we owe to the testator and the beneficiaries, our clients. Surely, the beneficiaries are entitled to every consideration, and we should do our utmost to make them feel at ease and to repose their confidence in us on every occasion. We must

GORDON L. GROOVER

was born in Grooverville, Georgia. His first business connection was with the Central of Georgia Railway Company with which he worked several years. In 1893, he became associated with the Citizens Bank of Savannah, now the Citizens and Southern National. At present he is Vice-President and General Trust Officer and in that capacity has supervision over all of the Bank's trust departments, each one of which is headed by its own trust officer.

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not lose sight of the fact that very frequently they do not know what is in the will or how much the estate is worth, and even if they have some knowledge of these things they are rather vague and uncertain about them. They probably have had very little, if any, business experience and it is perfectly natural for them to be timid and ill at ease during the first few months they are our clients. I am absolutely of the opinion that the most important meeting we ever have with the beneficiaries is the very first, when we meet with them and go into the details of how the will is drawn and how it must be handled. We must always bear in mind that up to that time they have leaned upon and depended upon husband and father for help and advice, and that we are to take their places; everything that concerns them in a financial way must be discussed with us and passed on by us. There is no time in their lives, even if they were good business people, that they are less fitted to consider problems of finance and management than this. They are overcome with a great sorrow, their nerves are worn to a frazzle, and it is extremely hard on them to deal the first time with a trust officer whom they do not know, at best, too well. If we trust officers can gain their confidence on this first meeting we will go a long way toward making the management of the estate a real pleasure.

I do not think we can lay down any set rule as to how we should act at this first contact. I don't think we should wear a funeral face, for there is gloom enough anyway, but we should do everything in our power to make them feel that the future is not all shrouded in darkness and that every cloud has a silver lining. On the other hand, of course, I am quite sure that it is no time or place to tell a funny story. It is a situation that requires the utmost tact and diplomacy, coupled with a real, genuine interest, on the part of the trust officer.

Two Packard Cars for Eleven Year Old Boy

I recall one instance in which the organization with which I am connected was the trustee for the property of a youngster eleven or twelve years of age. An aunt was guardian of the child, and our whole responsibility was to administer the estate and pay the income over to the guardian. She was a most excellent woman, and a friend of my family. Among the assets of the estate were two Packard automobiles, and before we had discussed the matter very far she asked me what we were doing to do with the automobiles. I told her that they were a part of the assets of the estate and under the will it was clearly our duty to sell them and invest the proceeds. She did not see the reason or justice in this and stated, in no uncertain terms, that she did not want the cars sold. We were extremely patient with her and before the interview was closed we had sold her, as guardian, both machines. I suppose she convinced the Court of Ordinary that it was for the best interests of her ward to have two automobiles and a chauffeur. This was a very happy solution of the matter and I really felt that I had handled it in the best possible way.

But just here let me say that a trust man should never get "puffed up." He should always remember that "pride goeth before a fall." Shortly after the automobile settlement referred to, the guardian called my attention to the fact that there was a yacht belonging to the estate and that she was firmly of the opinion that it would be to the best interests of her ward for the estate to retain it for the personal use of the child and his friends. I could very readily see her viewpoint. The child had spent a great deal of his time on the yacht with his father and the guardian was anxious to do everything that she could to make the boy happy. I had, however, been thinking a good deal about the yacht—principally as to whether I would be able to sell it at anything like its cost or real value. I must have smiled a little when I answered her question as to what we intended to do with the yacht, for like a bolt out of a clear sky she said: "I want to tell you, sir, that this is no time to laugh—this is a serious matter." Of course, I was very much surprised.

I won't bore you with any more of the details of the transaction, but I told the guardian very plainly that it would be necessary for us to convert the boat

into money at the earliest possible moment. I had an offer of $9,000 or $10,000 the very next day and I don't think I ever closed a trade more promptly; in fact, I convinced the purchaser that it would really be much better for him to give me a check at once, as we all knew that the yacht was in the harbor.

Disposing of Stock in a Close Corporation

One of the hardest problems for a trust officer to handle is that involving an estate that is a minority stockholder in a close corporation. It may be that the testator of the estate, although a minority stockholder, was the controlling spirit in the operations of the corporation. It may be that the corporation is not engaged in a hazardous business; it may have had a number of years in which it met with fair success, but the executor knows that the estate should not continue in business. The funds should be invested in a different type of security entirely, so that the beneficiaries will be certain of a reasonable income. If the investment stays in the corporation there may come a time when they will not be able to declare a dividend and the beneficiaries will have absolutely nothing to live on. In almost every case the other persons who own the corporation are either not able to buy the estate's stock or feel that they have as much money invested in the corporation as they wish to invest in it, and there is no market for the stock, for it is next to impossible to sell a minority interest in a close corporation.

It may be that the management is nothing like as good as it was before the death of the testator of the estate, and yet there is no way on earth to get rid of the stock. There is nobody to buy it, the executor cannot force a liquidation, and his hands are absolutely tied, when he knows that the funds should be invested in something else. I know of no problem where the trust officer is so helpless as in one of this nature, and I always advise my associates to urge our clients when arranging their estate affairs to have the company take out insurance so that there will be a fund to buy the stock of the deceased owner promptly after his death. I believe that we can render our clients no greater service than to try to work out some plan of this kind whereby the estate can get out of business.

When Income Is Inadequate

Probably one of the most pathetic problems that can come to a trust officer is that where he is called upon to administer a trust of, say, $40,000 or $50,000 left by a man who had received a salary of $6,000 or $7,000 a year. A wife and two or three children are left. They had always lived well, entertained some, and associated with the best people in the community; had always had everything in the world they wanted and were under the impression that they were well provided for. It is a real problem, after the estate has been appraised, to go to the widow and tell her that the estate is worth only from $40,000 to $50,000 and that her income in the future, from the estate, at best will not be more than $200 or $250 a month. There is a mortgage or $5,000 or $6,000 on the home, and she just cannot see how she can live on the reduced income. She has been accustomed to spending twice that amount, and it is extremely hard to make her realize that when her husband died his earning power died with him and that she will be obliged to live on $3,000 a year instead of $6,000. No doubt most of you have had experiences of this kind. I know of none that is harder, from a personal standpoint, on the trust officer. It takes a world of patience to enable the widow to see just exactly what she is up against, but my experience has been that if the matter is handled right in nine cases out of ten after the first blow has subsided somewhat, the widow is anxious to co-operate with you just as much as she possibly can. If it is not handled satisfactorily, however, you have one of the hardest problems that could possibly come to a trust officer.

Satisfying Life Tenant and Remainderman

There is one problem that comes up in every trust estate. I refer to the life tenant and the remainderman. The life tenant is vitally interested in receiving a maximum yield and is perfectly willing to take some risk in order to bring that about. On the other hand, the remainderman is especially interested in the preservation of the corpus of the estate. He has no interest whatever in what the property yields during the lifetime of the life tenant, but he is very much concerned in the estate being worth as much, or more, when it is delivered to him as it was when it was created. We, undoubtedly, owe a very high duty to both parties. It would be unfair to invest the funds of an estate in the very lowest yielding securities, thus depriving the life tenant of the income the testator expected him to receive, and it is usually the desire of the testator for the life tenant to receive a fair income as well as for the remainderman finally to receive the property intact. I feel that this is a condition that should receive the very best judgment and consideration that a trustee can give, but it is a condition where he will be influenced on the one hand to bring in as large a yield as possible, and on the other hand to make the estate as solid as possible. It is a condition that must be handled independently of the advice of either party; because their interests are entirely divergent and they would probably be prejudiced in any advice or suggestions they might make.

Handling "Going Businesses"

If "variety is the spice of life," the average trust officer has enough to flavor his entire existence, for well nigh every problem known to man will have

to be met and solved at some time during his career. Surely, the ideal trust officer should be well posted in the matter of investments and be able to buy securities that will bring in a high yield, and, at the same time, be as solid as the Rock of Gibraltar. This is not easy to do, for we all know that securities have a habit of going down at the very time when they should, in all reason, go up. He should be a skilled manufacturer. Notwithstanding the fact that he is only a minority stockholder in, say, a fertilizer company, he should be able to see that the company makes large profits, even though the fertilizer business may be shot to pieces. The same thing would apply to an ice plant. The trust officer should be able to sell the entire output at a fair profit when everybody is buying electric refrigerators. He must also be a good farmer, for the time will come when he will have to run a farm for a while, and he will certainly be expected to know the value of a mule—when he doesn't even know whether the animal should be approached from the north or south end.

Of course, we could go on indefinitely and cite problems that have to be solved and rough places that must be smoothed out. We get a great deal of pleasure out of handling the various problems, the tasks are extremely interesting, and there is that measure of satisfaction in a job well done, in knowing that the difficulties have been solved in an intelligent, businesslike manner. After all is done and said, the real test is the final outcome, and in arriving at this we cannot separate the actual mechanical management of the physical assets of the estate from the service rendered the beneficiaries, and no class of men have a greater opportunity for doing real, lasting good than we.

Let me urge you to take a vital personal interest in everything that pertains to the welfare of your beneficiaries. If you do this you will derive a great deal of personal pleasure and satisfaction in performing the duties that will devolve upon you, and make and keep a great many friends for yourself and your institution.

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